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No.

In The

Supreme Court of the United States

October Term, 1997

REPEAT-O-TYPE STENCIL,
MANUFACTURING CORPORATION,

Petitioner,

vs.

HEWLETT-PACKARD COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether sham litigation suits are going to be dismissed whenever an original plaintiff presents any theory, relating to any issue in the original case, even though that plaintiff never made any attempt to present any explanation as to how it would have proved and established its prima facia case.

2. Whether the fact that a plaintiff-patentee might have had a reasonable argument in response to a dispositive affirmative defense, eliminates the possibility of a case for sham litigation, in a patent suit, **even if the plaintiff-patentee could not have presented a prima facie case showing that the accused products were even covered by the patents in suit** (a prerequisite to avoiding Rule 11 sanctions under the standards set forth by the CAFC in *Herbert Judin v. The United States and Hewlett-Packard Company*, 110 F.3d 780, 42 U.S.P.Q. 2d 1300 (Fed. Cir. 1997).

3. Whether a complaint which alleges that a plaintiff in a patent case failed to do a fundamental claims analysis of the kind which the Court of Appeals for the Federal Circuit has deemed to be a violation of Rule 11, in other cases, meets the test for sham litigation set forth by this court in *Professional Real Estate Investors, Inc. v. Columbia Pictures, Inc.*, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993).

4. Whether the attempt, by litigation, to prevent a purchaser of a container from exercising its legal right to change the contents of that container, because the contents are not any of the elements of any of the claims of any of the patents asserted, is a violation of the antitrust laws under the holdings of this court in *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402, 52 U.S.P.Q. 30, *reh. denied*, 315 U.S. 826, 86 L. Ed. 1222, 62 S. Ct. 620 (1942) and *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 88 L. Ed. 376, 64 S. Ct. 268, 60 U.S.P.Q. 21, *reh. denied*, 321 U.S. 802 (1944).

CORPORATE LISTING UNDER RULE 29.6

Repeat-O-Type Stencil Manufacturing Corporation, Inc., has no parent companies and there are no subsidiaries or affiliates of Repeat-O-Type Stencil Manufacturing Corporation, Inc., that have issued shares to the public.

TABLE OF CONTENTS

	Page
Questions Presented	i
Corporate Listng Under Rule 29.6	ii
Table of Contents	iii
Table of Citations	iv
Opinions Below	1
Statement of Jurisdiction	1
Statutory Provision Involved	1
Statement of the Case	1
Reasons for Granting the Writ	6

I. Sham Litigation — The Ninth Circuit Completely Ignored The Rule 11 Sanction Criteria Established By The Court Of Appeals For The Federal Circuit Regarding A Prefiling Claims Analysis And Instead Focused Entirely Upon Hewlett-Packard's Response To An Affirmative Defense. 6

II. *Morton Salt* And *Mercoid Corp.* — *Patent Tying* — The Ninth Circuit Completely Ignored The Prohibition On Interfering With The Owner Of A Container's Right To Refill That Container And Did So In The Face Of The Original Trial Court's

Contents

Page

Determination (Affirmed By The *Cafc)* That Ink Was Not Part Of Any Of The Container Claims Asserted By Hewlett-packard. 21

Conclusion 25

TABLE OF CITATIONS

Cases Cited:

Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc., 366 U.S. 336, 141 U.S.P.Q. 681, 128 U.S.P.Q. 354 (1961) 16

Herbert Judin v. The United States and Hewlett-Packard Company, 110 F.3d 780, 42 U.S.P.Q. 2d 1300 (Fed. Cir. 1997) ..... i, 5, 7, 17, 19, 21, 25, 27

Hewlett-Packard v. Repeat-O-Type Stencil, 34 U.S.P.Q. 2d 1450 (N.D. Cal. 1995), 123 F.3d 1445, 43 U.S.P.Q. 2d 1650 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998) 4, 14, 23, 26

Hilton Davis Chemical Co. v. Warner-Jenkinson Co., Inc., 62 F.3d 1512, 35 U.S.P.Q. 2d 1065 (Fed. Cir. 1995) 11

Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir. 1995), *aff'd*, 116 S. Ct. 1384 (1996) 11

Contents

Page

Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376, 60 U.S.P.Q. 21 (1944), *reh'g denied*, 321 U.S. 802 (1944) ..... i, 21, 22, 23, 24, 26

Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402, 52 U.S.P.Q. 30, *reh. denied*, 315 U.S. 826, 86 L. Ed. 1222, 62 S. Ct. 620 (1942) ..... i, 21, 22, 23, 24, 26

Professional Real Estate Investors, Inc. v. Columbia Pictures, Inc., 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993) ..... i, 5, 7, 11, 15, 21, 27

Refac International Ltd. v. Hitachi, Ltd., 19 U.S.P.Q. 2d 1855 (1991) 13, 14, 15, 17, 19, 21, 25, 27

Statutes Cited:

15 U.S.C. § 2 1

15 U.S.C. § 15 1

28 U.S.C. § 1254(1) 1

Rule Cited:

Fed. R. Civ. P. 11 ..... 5, 6, 7, 13, 19, 21, 25

Contents

Page

APPENDIX

Appendix A — Memorandum Of The United States Court Of Appeals For The Ninth Circuit Filed March 9, 1998 ..... 1a

Appendix B — Order Of The United States District Court For The Central District Of California Filed January 22, 1996 ..... 6a

Appendix C — Order Of The United States Court Of Appeals For The Ninth Circuit Filed May 20, 1998 ..... 24a

Appendix D — Complaint For Violation Of U.S. And California Antitrust Laws; Tortious Interference With A Prospective Business Advantage; Abuse Of Process; Unfair Competition And Trade Libel, Dated October 25, 1995 ..... 26a

Appendix E — Hewlett-Packard's Response To Repeat-O-Type's Second Set Of Interrogatories 36a

Appendix F — Order Of The United States District Court For The Northern District Of California Filed February 7, 1995 ..... 39a

Petitioner, Repeat-O-Type Stencil Manufacturing Corporation, Inc., respectfully requests that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The opinion of the United States Ninth Circuit Court of Appeals was not reported and is reprinted in Appendix A. The opinion of the District Court was not reported and is reprinted in Appendix B.

STATEMENT OF JURISDICTION

The judgment of the Ninth Circuit Court of Appeals was entered on March 9, 1998. (App. A). Repeat-O-Type timely filed a petition for rehearing and suggestion for rehearing *en banc*, which was denied on May 20, 1998. (App. C). This petition is being filed within 90 days of the denial of the petition for rehearing and suggestion for rehearing *en banc*.

The jurisdiction of this Court to review the judgment of the Court of Appeals is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Title 15 U.S.C. § 2 (Sherman Act) provides in pertinent part:

> Every person who shall monopolize, or attempt to monopolize . . . , shall be deemed guilty of a felony. . . .

Title 15 U.S.C. § 15 provides in pertinent part:

> Except as provided in subsection (b) of this section, any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue thereafter in any district court in the United States. . . .

STATEMENT OF THE CASE

This case originated when Hewlett-Packard sued Repeat-O-Type on twelve separate Hewlett-Packard patents, all of which

allegedly related to Hewlett-Packard inkjet cartridges. In point of actual fact, Hewlett-Packard never presented any evidence or even attempted to present any argument, at any stage of any proceeding to establish that the Hewlett-Packard patents had any relation whatsoever to the Hewlett-Packard products which were involved in the litigation.

Repeat-O-Type purchased two Hewlett-Packard types of cartridges and thereafter modified those cartridges by, in the first case replacing the Hewlett-Packard ink with its own colored ink and in the second instance making the Hewlett-Packard lid removable so that the cartridges could be refilled with Repeat-O-Type replacement ink.

Because the products were purchased for full value by Repeat-O-Type, Repeat-O-Type had the right to replace the ink on the cartridges without infringing any patents. This is because the patent rights of the manufacturer are extinguished once that product is sold.

This purchase and extinguishment of patent rights is an affirmative defense to patent infringement. The first step in the analysis of infringement, however, is not whether there was an extinguishment of patent rights, but **whether there were any patent rights to begin with**. At no stage of any of the proceedings did Hewlett-Packard ever demonstrate, or even attempted to demonstrate, that the Hewlett-Packard patents in fact covered the Hewlett-Packard products. Repeat-O-Type propounded an interrogatory to Hewlett-Packard in the first case asking for a claims chart or claims analysis so that it could determine which patent claims Hewlett-Packard was asserting against which products. Hewlett-Packard did not provide this information and instead asserted that the interrogatory was premature. (This interrogatory was propounded after the litigation had been in suit for over a year.)

Repeat-O-Type moved for summary judgment against Hewlett-Packard as to all twelve patents. Hewlett-Packard only responded as to three of the patents. One of the patents to which Hewlett-Packard responded was a patent on ink and the other two were patents which related to cartridges.

Rather than present a defense to the summary judgment motion by showing how any of the claims of any of the patents in suit read on any of the products in suit, Hewlett-Packard merely pointed to a couple of elements of two patent claims and said that those elements could be found in Repeat-O-Type products. It is elementary that in order for there to be infringement, all of the elements of the asserted claim must be found in the products. As to all of the other claims of all of the other patents, Hewlett-Packard remained silent. It never presented any argument or any evidence to support any of the remaining nine patents. It never presented any evidence or any argument to show that any single claim of any patent in fact read on any Hewlett-Packard products.

While ignoring, in its entirety, the issue of whether the claims of the Hewlett-Packard patents read upon any of its products, Hewlett-Packard instead concentrated entirely upon Repeat-O-Type's affirmative defense of extinguishment of patent rights and Hewlett-Packard's affirmative defense to the affirmative defense, i.e., the repair-reconstruction doctrine of patent law.

Hewlett-Packard's defense to the affirmative defense was that Repeat-O-Type's replacement of the ink constituted an entire and complete reconstruction of Hewlett-Packard's patented cartridges (again, assuming without one scintilla of evidence that the cartridges in suit were in fact covered by any Hewlett-Packard patents — in fact, Repeat-O-Type determined after extensive discovery that none of the patents in suit covered any of the products in suit. This was further established by the fact that there were absolutely no patent markings on any of the products in suit.)

Under the doctrine of repair-reconstruction (again, this is an affirmative defense to an affirmative defense) one who purchases a product, thereby extinguishing patent rights, can still be liable for patent infringement if the product is thereafter completely reconstructed. The affirmative defense, to this affirmative defense, to the affirmative defense of extinguishment of patent right by purchase, is that mere repair, as opposed to total reconstruction, is allowed. All of this comes under the prohibition on "making" which arises under the patent laws.

The trial court correctly concluded that Hewlett-Packard's repair-reconstruction affirmative defense to the affirmative defense of extinguishment of patent rights by purchasers had no merit because the repair-reconstruction doctrine was not even involved. The court concluded, correctly, that ink was not an element of any of the claims asserted by Hewlett-Packard and therefore removal and replacement of the ink was neither repair nor reconstruction. This conclusion was affirmed by the Court of Appeals for the Federal Circuit, *Hewlett-Packard v. Repeat-O-Type Stencil*, 34 U.S.P.Q. 2d 1450 (N.D. Cal. 1995), 123 F.3d 1445, 43 U.S.P.Q. 2d 1650 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998).

In other words, the trial court correctly determined that even if one assumes that the Hewlett-Packard patents covered the Hewlett-Packard products, Hewlett-Packard still had no case because the products were purchased for full value from Hewlett-Packard, thereby extinguishing any patent rights which Hewlett-Packard *may have had*. Because the court reached the decision on that basis, it did not have to, and in fact *did not, reach the issue of whether or not the patents in suit actually covered the products in suit*.

In the case at bar, Repeat-O-Type alleged, inter alia, not just that Hewlett-Packard's repair-reconstruction affirmative defense to the affirmative defense of extinguishment of patent rights had no valid basis in law or fact but, more importantly, that the Hewlett-Packard patents did not even cover the Hewlett-Packard products and that Hewlett-Packard knew it.

The trial judge dismissed Repeat-O-Type's antitrust, sham litigation lawsuit with prejudice for failure to state a cause of action with no explanation whatsoever as to the theory presented by Repeat-O-Type as alleged in its complaint and which the court had a responsibility to accept as true. It based its decision primarily on the fact that Hewlett-Packard has successfully prosecuted Repeat-O-Type for trademark violation and then went on to basically state the criteria for sham litigation and state that Repeat-O-Type had not met the criteria without providing any explanation whatsoever of Repeat-O-Type's allegations that Hewlett-Packard never even

attempted to match any of the claims of any of the patents which it asserted against any of the Hewlett-Packard products which it alleged were impermissably reconstructed.

On appeal the Ninth Circuit affirmed the District Court's decision. It did not adopt the District Court's completely fallacious reasoning concerning succeeding on the trademark case. It attempted to provide an explanation as to why Hewlett-Packard's conduct in the underlying litigation was not sham. In its explanation the court completely missed the issues raised by Repeat-O-Type. The court obviously became confused by the grounds upon which the initial trial judge granted summary judgment. As explained above, the trial judge did not ever reach the initial question as to whether Hewlett-Packard had a prima facia case of patent infringement by virtue of the patents reading upon the products in the first instance. Instead the trial judge went directly to Repeat-O-Type's affirmative defense and decided the case on that basis alone. The Ninth Circuit, therefore, concluded that the central issue in the antitrust action was whether or not Hewlett-Packard had any reasonable theory in its affirmative defense (repair-reconstruction) to Repeat-O-Type's affirmative defense of extinguishment of patent rights through purchase.

While this was clearly the basis upon which the summary judgment was granted against Hewlett-Packard, **this was not the central issue raised in Repeat-O-Type's antitrust case**. The central issue of the antitrust case was whether or not the Hewlett-Packard patents read upon the Hewlett-Packard products in the first instance. If they did not (Repeat-O-Type's discovery established that they did not) then Hewlett-Packard could not have even established a prima facia case, whether or not Repeat-O-Type had an affirmative defense. The reason this was the central issue to Repeat-O-Type's antitrust case was that failure to do a preliminary claims analysis to determine that the claims read upon the products in suit has been held to be a violation of Rule 11 by the Court of Appeals for the Federal Circuit. *Herbert Judin v. The United States and Hewlett-Packard Company*, 110 F.3d 780, 42 U.S.P.Q. 2d 1300 (Fed. Cir. 1997). *The Rule 11 criteria was also the criteria set forth by this court for sham litigation* in *Professional Real Estate Investors, Inc. v. Columbia Pictures, Inc.*, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993).

The dismissal of plaintiff's sham litigation case, along with the affirmance of that dismissal, means that Hewlett-Packard was able to file a twelve count patent infringement lawsuit against Repeat-O-Type without ever having done a claims analysis on its patents, which did not even read upon its own products. This was clearly a frivolous lawsuit under the standard established by the CAFC for patent infringement cases and yet Repeat-O-Type was denied any recourse solely because Hewlett-Packard raised an argument directed to Repeat-O-Type's affirmative defense.

REASONS FOR GRANTING THE WRIT

I.

SHAM LITIGATION — THE NINTH CIRCUIT COMPLETELY IGNORED THE RULE 11 SANCTION CRITERIA ESTABLISHED BY THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT REGARDING A PREFILING CLAIMS ANALYSIS AND INSTEAD FOCUSED ENTIRELY UPON HEWLETT-PACKARD'S RESPONSE TO AN AFFIRMATIVE DEFENSE.

In recent years the Supreme Court has taken a renewed interest in patent law as well as the interrelationship between intellectual property law, antitrust law and sham litigation. At the same time, there has been an explosion in this country of frivolous litigation. In many instances this is simply a result of greed and lack of judgment on behalf of individuals hoping to hit the jackpot and retire. Those filing such lawsuits usually go unpunished. Other meritless litigation is perhaps more sinister in nature. It involves the use of the court system as an economic weapon to be used against competitors of lesser economic strength. One sees this constantly in business litigation where an economically superior party is often successful in overcoming a party with fewer economic resources without regard to the merits of either party's position. In the most egregious of these situations a party knowing full well that it has no objectively valid basis for litigation, nonetheless weighs in heavily against a party which it believes cannot afford any defense and therefore caves into the inappropriate and illegal demands of the superior party.

This is a matter of particular concern in the area of patent law because patents, by definition, are a monopoly. A party having patents and the resources to enforce them can put a smaller competitor or potential competitor out of business altogether. While this is always a danger presented by the existence of patents, the safeguard against inappropriate utilization of patents is that there are very specific requirements which must be met in order to file a patent lawsuit. Failure to meet those specific requirements has resulted in the imposition of Rule 11 sanctions by the Court of Appeals for the Federal Circuit. Ironically the leading case in this regard is *Herbert Judin v. The United States and Hewlett-Packard Company*, 110 F.3d 780, 42 U.S.P.Q. 2d 1300 (Fed. Cir. 1997). In that case, Hewlett-Packard was awarded Rule 11 sanctions because Mr. Judin and his attorneys failed to do the requisite claims analysis before filing Mr. Judin's patent infringement suit against Hewlett-Packard.

The rule laid down by the CAFC is very clear and very easy to follow. One simply matches the elements of the claims being asserted to the products being asserted and if each of those elements is found in the claim then a prima facia case of patent infringement exists. In the case at bar, Hewlett-Packard (according to the allegations of the complaint) never did such a prefiling claims analysis. *In point of fact, the patents themselves do not read upon the Hewlett-Packard products* whose ink was replaced and refilled by Repeat-O-Type and Repeat-O-Type's products. In dismissing Repeat-O-Type's complaint with prejudice for failure to state a cause of action the Ninth Circuit eliminated the safeguards against patent abuse which have been so clearly enunciated and forcefully enforced by the CAFC.

This case provides an opportunity for the Supreme Court to determine the minimum standards for filing a patent case in order to avoid sham litigation. The complaint alleges that Hewlett-Packard never did a prefiling (or after filing) claims analysis required by the CAFC to avoid Rule 11 sanctions.

In *Professional Real Estate Investors, Inc. v. Columbia Pictures, Inc.*, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993), Justice Thomas set forth the criteria for sham litigation as the basis for an

antitrust case. That case arose out of a copyright case wherein Columbia Pictures was unsuccessful in maintaining its action against Professional Real Estate Investors. Professional Real Estate Investors won its case on summary judgment which was affirmed on appeal.

Professional Real Estate Investors thereafter filed its antitrust case against Columbia for attempt to monopolize through sham litigation. It was unsuccessful in its attempts because it failed to meet one of the essential criteria for sham litigation as spelled out in Justice Thomas' opinion. The court decided that the question of sham litigation was one of law for the court, not of fact for the trier of fact and that in order to meet the test for sham litigation the underlying case must have had no basis in fact under existing law (a given in that case because summary judgment was granted) and also that there must be no reasonable basis for a modification, extension or overturning of the law as it existed at the time. It was on that basis that Professional Real Estate Investors failed to meet the test for sham litigation. In his opinion, Justice Thomas made the following comments:

> When the District Court entered summary judgment for PRE on Columbia's copyright claim in 1986, it was by no means clear whether PRE's videodisc rental activities intruded on Columbia's copyrights. At that time, the Third Circuit and a District Court within the Third Circuit had held that the rental of video cassettes for viewing in on-site, private screening rooms infringed on the copyright owner's right of public performance . . . Although the District Court and the Ninth Circuit distinguished these decisions by reasoning that hotel rooms offered a degree of privacy more akin to the home than to a video rental store, see 228 U.S.P.Q., at 746; 886 F.2d, at 280-281, copyright scholars criticized both the reasoning and the outcome of the Ninth Circuit's decision, . . . The Seventh Circuit expressly "decline[d] to follow" the Ninth Circuit and adopted instead the Third Circuit's definition of a "public place." . . . In light of the unsettled condition of the law, Columbia plainly had probable cause to sue.

> Any reasonable copyright owner in Columbia's position could have believed that it had some chance of winning an infringement suit against PRE. Even though it did not survive PRE's motion for summary judgment, Columbia's copyright action was arguably "warranted by existing law" or at the very least was based on an objectively "good faith argument for the extension, modification, or reversal of existing law." Fed. Rule Civ. Proc. 11. By the time the Ninth Circuit had reviewed all claims in this litigation, it became apparent that Columbia might have won its copyright suit in either the Third or the Seventh Circuit. Even in the absence of supporting authority, Columbia would have been entitled to press a novel copyright claim as long as a similarly situated reasonable litigant could have perceived some likelihood of success. A court could reasonably conclude that Columbia's infringement action was an objectively plausible effort to enforce rights. Accordingly, we conclude that PRE failed to establish the objective prong of Noerr's sham exception.

In the case at bar, Hewlett-Packard filed a suit based on twelve separate patents against Repeat-O-Type. Repeat-O-Type filed a motion for summary judgment as to each patent and that summary judgment was granted. The granting of the summary judgment motion means, by definition, Hewlett-Packard's case had no basis in fact under existing law. The only issue, therefore, as to whether Hewlett-Packard's case constituted sham litigation, was whether there was some arguable basis for modifying, extending, overturning or even applying the law to the facts in that case.

Repeat-O-Type's case, which is the subject matter of this appeal, was not decided on the merits. It was decided on the basis of a motion to dismiss *with prejudice* for failure to state a cause of action. Accordingly, the appropriate inquiry for the courts below should have been *whether or not the complaint stated a cause of action for sham litigation on its face, or could have been amended to do so.*

The complaint alleged, inter alia, that Hewlett-Packard never made any attempt to match any of the claims in any of the twelve patents to any of the products it accused of infringement.

If those facts as alleged were true, this would mean that the courts below concluded that, even though there was no evidence to support Hewlett-Packard's underlying case in light of existing law, *there was some reasonable argument that existing law could be modified, extended, overruled, etc., so as to encompass a situation wherein a viable patent case can be made where no element by element claims analysis was ever made of the products accused of infringement. Not even Hewlett-Packard advanced that position.* The law is fundamental and well established that a prerequisite for filing a patent infringement suit is that a claims analysis be performed before suit is ever filed. This is simply another way of saying that a determination must be made of the existence of a prima facie case before a case is filed. *Ironically, the Court of Appeals for the Federal Circuit awarded sanctions to Hewlett-Packard and against a patentee who filed suit against Hewlett-Packard without first doing a prefiling claims analysis such as the one which Hewlett-Packard failed to do in the case at bar. Herbert Judin v. The United States and Hewlett-Packard Company*, 110 F.3d 780, 42 U.S.P.Q. 2d 1300 (Fed. Cir. 1997).

In that case the court stated on page 784.

> Attorney Van Der Wall reviewed one of the asserted patent claims and stated that he "saw no problem with it." "Determining infringement, however, requires that the patent claims be interpreted and that the claims be found to read on the accused devices." *S. Bravo Systems, Inc. v. Containment Technologies Corp.*, 96 F.3d 1372, 1375, 40 [*13] U.S.P.Q. 2d (BNA) 1140, 1143 (Fed. Cir. 1996). As in S. Bravo Systems, there is no evidence that Judin or his attorneys "compared the accused devices with the patent claims" prior to filing the complaint. *See id.* (holding that trial court abused its discretion by denying a motion for Rule 11 sanctions without adequate explanation).

Other recent Supreme Court cases dealing with issues of patent law are *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 979 (Fed. Cir. 1995), *aff'd*, 116 S. Ct. 1384 (1996) and *Hilton Davis Chemical Co. v. Warner-Jenkinson Co., Inc.*, 62 F.3d 1512, 35 U.S.P.Q. 2d 1065 (Fed. Cir. 1995). Both of these cases clarified areas of legal ambiguity in the field of patent law. The fact that the Supreme Court was willing to undertake a review of these cases indicates the importance that the court has recently attached to intellectual property matters in general and patent law in particular. The *Professional Real Estate Investors* case, *supra*, applied concepts of antitrust and sham litigation law to the field of copyright litigation. While the general principles of sham litigation were enunciated in *Columbia Pictures*, they have never been specifically applied to patent law. The case at bar goes right to the heart of the issue of what can a party seeking to assert patents against another party do, and not run afoul of the sham litigation prohibition of the antitrust laws.

In filing its complaint against Repeat-O-Type, Hewlett-Packard never did such an analysis; *in fact the claims of the patents in suit did not apply to the products in suit*; Hewlett-Packard refused to provide a claims analysis in response to the interrogatory directed to this issue and at no time, *at any stage of any proceedings did Hewlett-Packard ever present any evidence that it had in fact performed such a claims analysis*. Again, these are *the facts as alleged* in the complaint (App. D) which was dismissed *with prejudice* for *failure to state a cause of action.* [1]

While Repeat-O-Type realistically recognizes that this Court only accepts a microscopically small number of cases presented to it, it is respectfully suggested that *the implications of this case are significant in terms of their potential impact in the world of intellectual property litigation.* The implication of allowing the parties the potential of abusing patents by asserting patents (in this case twelve patents) when there is no supporting basis in fact or law and no investigation has been performed to determine whether

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1. If for some reason these allegations could have been better pled, the court should have allowed amendment. The court instead held that because Hewlett-Packard raised a defense to *an affirmative defense* there could be no allegation that would support sham litigation.

there is any possibility of infringement, is significant. It was plaintiff's allegation that this was precisely what occurred in this case and, if there is no redress for parties who have been subjected to this kind of litigation, (*assuming, as the Court must, that the allegations are true*) then the potential ramifications of allowing carte blanche for this kind of patent and judicial abuse can be highly significant in today's competitive world, as it relates to the protection of intellectual property.

Neither the trial court nor the Court of Appeals dealt with these issues. In fact, *they completely ignored them.*

In dismissing the case with prejudice the District Court held that the case could not possibly be sham litigation because Hewlett-Packard had succeeded in one part of its case, to wit, its suit for trademark infringement. The court went on to state, without any analysis or explanation whatsoever, that:

> Even looking at the present claims alone, it cannot be said that *institution of the proceedings* was "objectively baseless" or "lacking in probable cause." *id.* at 1329-30. Although Hewlett-Packard's theory that Repeat-O-Type's *modification of its patent* was ultimately unavailing, it was "warranted by existing law" or at least based on an objectively "good faith argument for the extension, modification, or reversal of existing law."

Id. at 1930-31 (quoting Rule 11). (emphasis added).

The Court of Appeals did not adopt the reasoning of the District Court but nonetheless affirmed on grounds which are quite frankly extremely difficult to comprehend.

As a first order of business, the Ninth Circuit panel went into a detailed discussion as to why the mere granting of a motion for summary judgment against a plaintiff does not, ipso facto, mean that the underlying case was sham litigation. It should be noted that *at no time did Repeat-O-Type ever assert that proposition of law*. Such a proposition would be absurd. Granting of the summary judgment is, however, relevant. The fact that summary judgment was granted means that the court concluded the under the existing

law there were no facts which could support going forward with plaintiff's case. That fact was relevant. The fact of the matter is, however, *plaintiff's complaint which was dismissed for failure to state a cause of action never said that the summary judgment was an independent basis for the sham litigation allegations.* Since the court was supposed to be focusing on whether or not a cause of action was alleged, *its discussion about the summary judgment not being an ipso facto basis for sham litigation was completely irrelevant.*

The court then made the statement that "the prefiling preparation of a claims chart was not a requirement". The court defined a claim chart as a document setting forth which claims in the patents were being asserted. Again, this had nothing to do with the allegations in the complaint. The complaint did not allege failure to prepare a document which set forth which claims were being asserted. The complaint alleged failure to comply with the requirements of the Court of Appeals for the Federal Circuit in *Refac International Ltd. v. Hitachi, Ltd.*, 19 U.S.P.Q. 2d 1855 (1991) and *Herbert Judin v. The United States and Hewlett-Packard Company, supra.* **The term "claim chart" is merely a shorthand term commonly used by patent attorneys to define the matching of each element to an asserted claim to an element found in the accused infringing device. Regardless of what one calls such a prefiling analysis, the fact of the matter is, that the Court of Appeals for the Federal Circuit has made it explicitly clear that failure to do so is sanctionable conduct under Rule 11. A further irony of this case, is that the *standard for Rule 11 sanctions which was discussed by the CAFC in both Refac and Judin is identical to the standard set forth by this Court in Professional Real Estate Investors v. Columbia Pictures, supra, for sham litigation.*** In other words, the complaint tracks the requirement for Rule 11 sanctions as set forth by the CAFC and alleges that Hewlett-Packard failed to comply with those requirements. The Court of Appeals for the Ninth Circuit in affirming the District Court's decision below has, in essence, said that the failure to comply with the Rule 11 standards required by the CAFC does not amount to sham litigation even though the standards are identical. (Again, this is directed to the allegations of

Repeat-O-Type's complaint *which must be accepted as true* in determining whether they set forth a cause of action).

In other words, the rather inartful statement by the Ninth Circuit regarding there not being a requirement for a prefiling claims chart, when analyzed in light of the allegations of the complaint and the holdings of the CAFC in *Refac* and *Judin* means that the Ninth Circuit has taken the position that the failure to even attempt to determine if a prima facie case exists, by doing the required claims analysis, cannot, **as a matter of law**, constitute a failure to meet the requirements of *Professional Real Estate Investors v. Columbia Pictures, supra.* The court does *not advance* the proposition (*nor does Hewlett-Packard*) *that there can be any arguable basis for a patent infringement suit when* ***each and every one*** *of the elements found in* ***at least one*** *of the asserted claims is* ***not*** *found in any of the products accused of infringement.* The misconduct of Hewlett-Packard in the case at bar was particularly egregious because *no attempt was made, at any stage of the proceedings, to match* ***all*** *of the elements of* ***even one*** *claim* of ***any*** patent to ***any*** of the products in suit as required by *Refac* and *Judin.* This egregiousness is further exacerbated by the fact that all of the products in suit were Hewlett-Packard products, which were modified by Repeat-O-Type in a perfectly legal manner. *Hewlett-Packard v. Repeat-O-Type Stencil,* 34 U.S.P.Q. 2d 1450 (N.D. Cal. 1995), 123 F.3d 1445, 43 U.S.P.Q. 2d 1650 (Fed. Cir. 1997), *cert. denied,* 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998).

Hewlett-Packard's suit against Repeat-O-Type involved twelve separate counts for twelve separate patents. Repeat-O-Type moved for summary judgment as to all twelve. *Hewlett-Packard did not even respond as to nine.* It only advanced arguments as to three of the counts.

With regard to the three patents (which were discussed by the Ninth Circuit in its opinion) one of those dealt with an ink formula. The court's rationale with regard to the ink formula patent was that Hewlett-Packard did make some attempt to analyze the ink and therefore that alone was sufficient to escape sham litigation. There was absolutely no analysis done by the court to determine whether Hewlett-Packard's analysis of that ink had anything to do

with a prima facie case since there was no matching of the ink formula to *all of the elements of any* claim as required by *Refac* and *Judin*.

This leaves only the question of the court's analysis as to the other two patents which were discussed in the court's opinion (i.e. two out of the remaining eleven, **the other nine were not discussed at all**). With regard to the other two *the court made a fundamental error of patent law*. This is a matter which the Supreme Court now has the opportunity to clarify and provide guidance for all of those who practice patent law and who are concerned with antitrust ramifications. **The court confused the issues of affirmative defenses in patent law with the requirements of *Professional Real Estate Investors, supra*, regarding the establishment of a prima facie case**.

In Hewlett-Packard v. Repeat-O-Type, Hewlett-Packard had argued that Repeat-O-Type's modification constituted impermissible reconstruction of Hewlett-Packard's original products, which reconstruction would constitute infringement, **if, and only if, the patents read on the cartridge and the ink within, in the first place.** In deciding, whether or not Hewlett-Packard could still maintain an action, the court decided the repair-reconstruction issue against Hewlett-Packard and in favor of Repeat-O-Type. Hewlett-Packard then took this issue to the Court of Appeals for the Federal Circuit which affirmed the decision of the court below and rejected Hewlett-Packard's repair-reconstruction theory.

In sustaining Hewlett-Packard's motion to dismiss Repeat-O-Type's complaint with prejudice in the case at bar, the Ninth Circuit *completely ignored the allegations of the complaint,* (**that basically the patents don't even cover the Hewlett-Packard cartridges**), which was dismissed, by the trial court, with prejudice, *for failure to state a cause of action*. Instead it focused entirely on the fact that Hewlett-Packard had raised a repair-reconstruction issue which theoretically had some validity. *If this were indeed the issue in Repeat-O-Type's antitrust sham litigation case, Repeat-O-Type would never have even filed the case*. This, like the court's focus on the granting of the summary judgment, was a strawman **which had absolutely no relevance to the allegations in Repeat-O-Type's complaint**.

In its Memorandum the 9th Circuit panel stated on page 4:

> We are not persuaded that HP's actions were objectively baseless or that they demonstrated grave abuse. We note that HP discussed its infringement theory with reference to several representative patent claims because **the dispositive issue on eleven of them** (excluding the ink patent) **was the same**: "*whether ROT's modifications to unused HP ink-jet cartridges constituted an impermissible reconstruction of the cartridges*." **Nor do we find that a claims chart is a prerequisite for a suit**. (Emphasis added)

This was **not** the dispositive issue!

The repair-reconstruction doctrine which was raised by Hewlett-Packard has nothing to do with the establishment of a prima facie case of infringement. The repair-reconstruction doctrine is an affirmative defense. The leading case of repair-reconstruction is *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.*, 366 U.S. 336, 141 U.S.P.Q. 681, 128 U.S.P.Q. 354 (1961). In that case the court held that one who purchases a patented product has the right to repair that product as long as the repair does not amount to a total reconstruction of the product. In other words, if, as a first step, it is established that the product in suit is covered by the patent in suit (i.e., each and every element of the asserted claims is found in the accused infringing product) and if the accusation of infringement relates to modification or repair or reconstruction of the product covered by the patents, the affirmative defense is that, **"Yes, the product is covered by the patent in suit but I was merely repairing the product which I have a right to do."** Hewlett-Packard never set forth any theory or discussed in any of its pleadings the issue of whether or not the products in suit were covered by the patents in suit. It just assumed this as a given and then went on to present all of its arguments directed toward rebutting the affirmative defense. Repeat-O-Type, on the other hand, not only asserted the affirmative defense in its summary judgment pleadings, but also Hewlett-Packard's answer to Repeat-O-Type's interrogatory wherein Hewlett-Packard admitted that it had never done the requisite prefiling claims analysis. In

point of actual fact, the patents in suit could not possibly have had any relation to Repeat-O-Type and its conduct since they included things such as a method of manufacturing of print heads. Repeat-O-Type's operation consisted of nothing more than removing ink from new cartridges and replacing it with Repeat-O-Type colored ink. Repeat-O-Type had no manufacturing process and was not engaged in any of the activities covered by any of the patents in suit. Whether any of this is true or not, *it was all alleged in the complaint and both courts had a responsibility to accept those allegations as true.*

In other words, Repeat-O-Type's antitrust case related to whether or not Hewlett-Packard had any basis for filing its patent infringement suit in the first instance **because the patents did not even read on Hewlett-Packard products**.. These allegations were based upon the fact that none of the claims of any of the patents in suit could be matched to any of the Hewlett-Packard products in suit and that Hewlett-Packard never made any attempt to do so. **It made no attempt to do so before filing the lawsuit as required by *Refac* and *Judin*. It did not make any attempt to do so at any stage during the summary judgment proceedings in the original case. It never attempted to do so in answer to Repeat-O-Type's interrogatory (making the absurd statement that such a request was premature after the case had been extant more than a year) (App. E); it never attempted to do so in any of the pleadings in the antitrust case; it never made any attempt to do so before the Court of Appeals for the Federal Circuit and it never made any attempt to do so before the Ninth Circuit.** As of now, no courts have been willing to hold Hewlett-Packard responsible for its abject failure to comply with the fundamental requirements of filing a patent infringement suit as set forth by the CAFC in *Refac* and *Judin*.

One method of seeing where the court made its mistake in its analysis of Hewlett-Packard's arguments can be shown by the following algorithm:

1. Did Hewlett-Packard establish a prima facie case by matching each and every element of any of the asserted claims to any of the products in suit?

____ Yes ↓ ____ No → End Suit In Favor of Repeat O-Type

2. If any of the products in suit were covered by each and every element of any of the claims of any of the patents in suit, were those products purchased from Hewlett-Packard by Repeat-O-Type?

____ Yes ↓ ____ No → End Suit In Favor of Hewlett-Packard

3. Were the accused products which were purchased by Repeat-O-Type subsequently totally reconstructed?

____ Yes ↓ ____ No → End Case

☒ If the answer is yes end case in favor of Hewlett-Packard.

☒ If the answer is no end case in favor of Repeat-O-Type.

The District Court, in granting summary judgment in favor of Repeat-O-Type went straight to question 3 and answered it in favor of Repeat-O-Type. The antitrust case on the other hand, does not necessarily bother with questions 2 or 3, but goes **directly** to question 1. The trial court in the underlying case **merely assumed that the answer to question 1 would be that one or more of the claims of each of the patents in suit read upon the Hewlett-Packard products which were purchased by Repeat-O-Type**. *It did not make any finding to that effect.* It merely assumed it.

In affirming summary judgment against Hewlett-Packard, the CAFC stated on page 1451:

> Although the district court did not construe the claim terms "pen body housing" or "ink reservoir,"

> and hence did not consider whether modification of the cap results in a modification of specific elements of the claims, *for purposes of our inquiry into ROT's "authority," we will assume that HP's patents read on ROT's modified cartridges.*

(Emphasis added).

In affirming the decision of the court below in the antitrust case, the Ninth Circuit took the position that because Hewlett-Packard had raised some issues regarding the Repeat-O-Type affirmative defense, this was enough to avoid sham litigation. **This constitutes a complete and total ignoring of the issues raised by Repeat-O-Type and set forth in its complaint. *If Hewlett-Packard never did a claims analysis and was unable to create and present a prima facie case*, it is completely irrelevant whether or not Repeat-O-Type had an affirmative defense.**

Basically what the Ninth Circuit said was, that if any plaintiff in a case makes any argument about anything in the case, even including an affirmative defense, no action can be maintained against it for sham litigation *even if it has not even presented one scintilla of evidence to support a prima facie case.*

No court has ever held that one can maintain a patent infringement case when each and every element of at least one claim of a patent is not found in the accused infringing product or process. No party, including even Hewlett-Packard in this case, has ever contended that there is any support for any alternate theory of the law. The CAFC has awarded sanctions for failure to do such an analysis before filing the lawsuit. It awarded them in *Refac, supra,* and awarded them to Hewlett-Packard in *Judin, supra.*

In short, the issue before this Court is clean and simple, but one of enormous significance. If a party fails to follow the requirements for avoiding Rule 11 sanctions (which are the same requirements for sham litigation) as set forth by the CAFC in *Refac* and *Judin* is that or is that not sham litigation under the objective standard established by this Court? (Repeat-O-Type acknowledges full well that other elements of sham litigation must be established

by it at trial. The issue here is whether the threshold test has been or can be met *by the pleadings*.)

Neither the District Court nor the Ninth Circuit ever made any attempt to analyze the issue as presented in this pleading; as presented in the brief to the Ninth Circuit and as was presented in the complaint. What appears to have happened is that the courts looked at the decision of the District Court in the first case granting summary judgment in favor of Repeat-O-Type and the CAFC decision affirming that judgment and mistakenly concluded that the issue of the fundamental requirement of prima facie claim analysis had somehow been met by Hewlett-Packard and the only issue was repair-reconstruction. Since Hewlett-Packard presented argument on repair-reconstruction it concluded that that particular issue did not meet the test for sham litigation. *The reality is that the first step was never met.* If, in fact, the patents in this case had read upon the products in suit and the only issue was repair-reconstruction *Repeat-O-Type would not even have filed this case.*

It was the complete lack of any evidence on the part of Hewlett-Packard, as well as the affirmatively established fact that Hewlett-Packard never did a claims analysis of the products in suit, coupled with the fact that any analysis of the claims in suit would reveal that the products in suit had no relation to the patents in suit, that formed the basis for Repeat-O-Type's sham litigation conclusion.

Repeat-O-Type is mindful of the fact that it appears (to itself at least) to be beating this horse to death. Nonetheless, the same arguments have been presented in the past and have been steadfastly ignored by the courts. Either the courts are not hearing these arguments or they are not interested in getting to the bottom of the issues presented in the complaint. *There has been absolutely no discussion whatsoever of the requirements of Judin and Refac by the District Court and the Ninth Circuit panel, even though they were central to the arguments presented in Repeat-O-Type's brief.*

This is a matter of considerable importance and significance in the climate of business today. Unless this Court is willing to take on the issue of consequences for engaging in the conduct ***alleged*** in Repeat-O-Type's complaint to be engaged in by Hewlett-

Packard, anyone with enough patents and enough resources can use its patents as a club against potential competitors without even doing the most fundamental claims analysis required by *Judin* and *Refac* for the establishment of a prima facie case. It is hoped that the Supreme Court will recognize the significance of the issues raised in this petition and well as the interesting legal issues involving the interrelationship between patent law and antitrust law, as well as the interrelationship between this Court's test for sham litigation and CAFC's test for Rule 11 sanctions in patent cases. This Court has set a very high bar for the establishment of sham litigation. This was illustrated quite dramatically in *Professional Real Estate Investors, supra.* In that case, the issue related to what the law should be regarding copyright infringement involving new and emerging technologies. **The irony of the case at bar is that the patent law's requirement of a prefiling element by element claims analysis is one of those areas of the law which is settled and which is clean and easy to understand. Refusal of the Ninth Circuit to even consider the requirements of the CAFC in this regard provides a unique opportunity for this Court to tie the requirements of the CAFC to the requirements of *Professional Real Estate Investors, supra,* and make the law in this regard as clear and definite as it deserves to be.**

II.

MORTON SALT AND *MERCOID CORP.* — *PATENT TYING* — THE NINTH CIRCUIT COMPLETELY IGNORED THE PROHIBITION ON INTERFERING WITH THE OWNER OF A CONTAINER'S RIGHT TO REFILL THAT CONTAINER AND DID SO IN THE FACE OF THE ORIGINAL TRIAL COURT'S DETERMINATION (AFFIRMED BY THE *CAFC)* THAT INK WAS NOT PART OF ANY OF THE CONTAINER CLAIMS ASSERTED BY HEWLETT-PACKARD.

Repeat-O-Type had separate and independent grounds for its actions against Hewlett-Packard which were also dismissed with prejudice for failure to state a cause of action. Once again, the question *was not whether Repeat-O-Type met its burden of proof,*

but whether it stated a cause of action. Once again, the court's decision did not deal with the allegations of the complaint at all, but only gave a short and fundamentally irrelevant discussion of the final issues as though it had already resolved all factual issues.

The alternative theory of Repeat-O-Type is related to, but different from, the sham litigation theory in that it asserts that Hewlett-Packard wrongfully and willfully attempted to use patents on products to restrict and impede the ability of a party rightfully to change the contents of those products. (App. D). The impropriety of using patents for this purpose was clearly spelled out in the cases of *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402, 52 U.S.P.Q. 30, *reh. denied*, 315 U.S. 826, 86 L. Ed. 1222, 62 S. Ct. 620 (1942) and *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376, 60 U.S.P.Q. 21 (1944), *reh'g denied*, 321 U.S. 802 (1944).

A major difference between this theory of the case and the sham litigation theory of the case, is that the high bar for sham litigation is not present. The decisions of this Court in *Morton Salt* and *Mercoid*, did not require that there be no basis in the law nor reasonable extension, modification, etc. In other words, whether or not Hewlett-Packard had some hint of a possibly valid legal theory for using the legal process to attempt to control a party's right to use its product in a manner which the Court has determined to be perfectly legal, this theory by Hewlett-Packard would not exempt it from the prohibitions on patent misuse set forth by *Morton Salt* and *Mercoid*. According to the decision of the trial court in the original case, which was affirmed by CAFC on appeal, Hewlett-Packard was clearly attempting to use patents to prevent refilling and replacement of ink when ink was not any part of the patent claims. If Hewlett-Packard had been attempting to do the same thing with contracts that it attempted to do through litigation this would have been a violation of the antitrust laws regardless of whether Hewlett-Packard had any possible theory as to why it had a right to do what it did. There is nothing in the law which says that simply because Hewlett-Packard attempted to do through litigation what it could not do through contract negotiations that there is some higher standard which must be met. In other words,

while the cause of action for patent misuse under *Morton Salt* and *Mercoid* is related to the issue of sham litigation, it is not the same as sham litigation and the criteria for sham litigation should not apply. In fact, the Ninth Circuit did not apply the standard for sham litigation, but merely distinguished the case at bar on its facts from *Morton Salt* and *Mercoid.*

While there are clearly factual distinctions between *Morton Salt* and *Mercoid, supra,* and the case at bar, the fundamental principle is the same. Even if one assumes (and just to be painfully and overly clear about this matter, Repeat-O-Type has never made such an assumption) that the Hewlett-Packard inkjet cartridges in suit were covered by the patents in suit, *this did not give Hewlett-Packard the right to attempt to prevent people from refilling those containers when the contents of the containers were not part of any of the claims of any of the patents in suit.* This was the position taken by the trial court in the underlying case and it was strongly affirmed by the CAFC in *Hewlett-Packard v. Repeat-O-Type,* 123 F.3d 1445 (Fed. Cir. 1997). This again was a matter requiring some understanding and analysis of patent law issues. Once again, in order to determine whether there has been infringement of a patent, one must first look to the claims in the patent which are being asserted and then one must take each and every element of any claim being asserted and match each and every one of those elements to the product in suit. If any single element is missing, there is no infringement.

Since ink was not an element in any of the patents on containers asserted against Repeat-O-Type, the removal and replacement of ink could not possibly constitute a total repair and reconstruction of the cartridges. Nothing was done to the cartridges. This fact was also well established by the trial judge in *Hewlett-Packard v. Repeat-O-Type* on page 15 of his decision (App. F) and by the CAFC in *Hewlett-Packard v. Repeat-O-Type,* 123 F.3d 1445 (Fed. Cir. 1997). Accordingly, Repeat-O-Type had an absolute right to do what it did and not be liable for infringement. *Hewlett-Packard was not able to point to a single case wherein replacement of contents of a patented container constituted repair or reconstruction or anything related to either one.* Again, the Court of Appeals for the Federal Circuit, correctly concluded that

what Repeat-O-Type had done was neither repair nor reconstruction, but it was more like repair than reconstruction. Since it was neither repair nor reconstruction, Hewlett-Packard had no basis under any legitimate legal theory and no cases to support its theory. To the contrary, *Morton Salt* and *Mercoid* make it quite clear that one who has a patent on a container has absolutely no right to control what the purchaser of the container does in terms of the contents of the container and doing so may be a violation of the antitrust laws if it meets the other criteria (all of which were alleged or could have been alleged in the complaint).

In this case, Hewlett-Packard's attempt to prevent someone from their legitimate and proper use of purchased products, as has been the law since *Morton Salt* and *Mercoid* was arguably an egregious abuse of the legal process. Because of the overwhelming disparity in resources between Hewlett-Packard and Repeat-O-Type, one can logically infer that Hewlett-Packard's attempt to assert its patents, in clear violation of long *established principles of patent law*, was a deliberate and willful attempt to use the courts as a weapon to attempt to destroy a potential competitor.

Once again, if left unanswered, the law, as perceived by the Ninth Circuit, is that a company, which has no patents covering the contents of containers, can sue competitors for completely legitimate and proper utilization of those containers, in terms of changing the contents thereof, with absolutely no risk to itself of suffering any consequences from misusing the legal process in this regard.

The consequences of leaving the law in the state in which it has been left by the Ninth Circuit in the case at bar, has terrible potential ramifications for the business community.

Repeat-O-Type has done nothing more then ask the Court to apply the logical extension of *Morton Salt* and *Mercoid* to a situation where the patent owner is attempting to use the judicial process as an improper method of extending its patent rights.

CONCLUSION

Repeat-O-Type is a small company and it has been hammered by an economic giant. Hewlett-Packard fired a full volley of twelve patent infringement cases against a small company whose very survival has been threatened. As a result of this case and the Hewlett-Packard trademark case, both Repeat-O-Type and its president have been forced into bankruptcy. Repeat-O-Type filed a sham litigation antitrust case against Hewlett-Packard alleging, inter alia, that Hewlett-Packard *did no prefiling claims analysis as required by the CAFC to avoid Rule 11 sanctions. The criteria for Rule 11 sanctions is identical to the criteria for sham litigation.* The trial court and appeals court were required by law to accept the complaint at face value and assume the allegations were true. Instead of assuming that the allegations were true, the Ninth Circuit completely ignored the allegations and instead focused on the fact that Hewlett-Packard made some arguments concerning an affirmative defense. The issues relating to that affirmative defense were not even part of Repeat-O-Type's complaint for sham litigation. *The allegations were that Hewlett-Packard did not have a prima facie case under existing law* and established principles of patent law and furthermore that *it did not even attempt to determine if it had a prima facie case* by doing the claims analysis required in patent law as set forth by the CAFC in *Refac* and *Judin*.

Whether Hewlett-Packard had a response to an affirmative defense down the line, was completely irrelevant to whether Hewlett-Packard had any possibility of establishing a prima facie case. No one, including Hewlett-Packard, has taken the position that an element by element claims analysis is not a requisite for establishing a prima facie case of infringement. Accordingly, there is no argument that the law should be changed, modified, overruled, extended etc., to encompass a situation where a product was not even covered by any of the claims of any of the patents in suit. The only issue therefore, as presented by Repeat-O-Type's complaint, was whether or not there was any factual analysis of the products purchased by Repeat-O-Type to determine if any of those products were in fact covered by the patents in suit. Repeat-O-Type affirmatively alleged that no such analysis was done and that if such an analysis had been performed it would have been

determined that those products could not possibly have been covered by the patents in suit. *The court was under an obligation to accept all of these allegations as true.* Not only did neither court accept the allegations as true, but they ignored them altogether. This was particularly true with regard to nine of the patents wherein Hewlett-Packard did not even raise the argument relating to Repeat-O-Type's affirmative defenses. *Nowhere in the record of any of these cases between these two parties is there a claims chart or claims analysis or element by element matching of any claim of any of the asserted patents against any of the products in suit.*

In addition, Hewlett-Packard blatantly attempted to use patents on containers, *wherein there is no mention of the contents as an element of any claims of any of the twelve patents*, to restrict and prevent a legitimate purchaser of those containers from changing the contents thereof. The CAFC held that Repeat-O-Type had this right and this court denied Hewlett-Packard's petition for a writ of certiorari, *cert. denied* 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998). Hewlett-Packard's action constituted patent misuse as clearly established by this Court in the cases of *Morton Salt Co. v. G. S. Suppiger Co., supra,* and *Mercoid Corp. v. Mid-Continent Investment Co. supra.* The District Court did not even discuss this issue and the Ninth Circuit made an offhand reference to differences in the facts while completely ignoring the legal principles involved.

In short, the Ninth Circuit merely looked for some excuse to prevent Repeat-O-Type from asserting its legitimate rights. Repeat-O-Type is a party which has been wronged. The complaint clearly alleges a violation of the law and at a minimum Repeat-O-Type had the right to have the complaint accepted at face value for purposes of a motion to dismiss and a factual inquiry should have been allowed to determine what, if any, justification Hewlett-Packard could present for trying to establish that it had ever done any analysis to determine whether it had in fact a prima facie case of infringement.

As far as the Ninth Circuit is concerned, as long as someone makes any argument, regardless of the issues to which those arguments are addressed, that is sufficient to avoid sham litigation. That is an intolerable misapplication of the law as set forth in

Professional Real Estate Investors, and if it were the law it would have enormous repercussions in terms of the ability of competitors to operate in an environment in which intellectual property rights are increasingly important. Patent rights are extremely important and extremely valuable. They should be preserved and enforced whenever appropriate. To allow gross misuse and abuse of patent rights, on the other hand, is intolerable and if allowed to remain unchecked can have disastrous consequences. One way of looking at the potential consequences would be to take the allegations of the complaint (which was found by the court to not state a cause of action) and have the Supreme Court state that even if all of those allegations were, in fact, true, this would be a perfectly acceptable and legitimate course of conduct. This Court would never enunciate such a proposition of law and yet that is essentially what the Ninth Circuit has done in this case.

This case presents an opportunity for the Supreme Court to solidify the holdings of the CAFC in *Refac* and *Judin* and to tie those decisions directly to the antitrust law and sham litigation requirements set forth in *Professional Real Estate Investors v. Columbia Pictures, supra*. Patent law, sham litigation and antitrust law are all part of the family of monopolies, both legal and illegal. This case provides a rare opportunity for this court to tie all of those issues together in one case and provide definite guidance to patentees, patent owners and potential accused infringers.

It is respectfully requested that this petition for certiorari be granted.

Respectfully submitted,

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APPENDIX

APPENDIX A — MEMORANDUM OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT FILED MARCH 9, 1998

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 96-55205

D.C. No. CV-95-7284 DT (RMCx)

REPEAT-O-TYPE STENCIL, MANUFACTURING CORPORATION, a New Jersey corporation,

Plaintiff/Appellant,

HEWLETT-PACKARD COMPANY, a California corporation,

Defendant/Appellee.

MEMORANDUM*

Appeal from United States District Court
for the Central District of California
Dickran M. Tevrizian, District Judge, Presiding

Argued and Submitted June 3, 1997
Pasadena, California

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* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by 9th Cir. R. 36-3.

Appendix A

Withdrawn from Submission June 18, 1997
Resubmitted March 5, 1998

Before: BROWNING, FLETCHER and KOZINSKI, Circuit Judges

Repeat-O-Type ("ROT") appeals the decision of the district court dismissing for failure to state a claim ROT's claim that Hewlett-Packard ("HP") engaged in sham litigation against ROT. ROT argues that HP's patent claims were objectively baseless.

We review de novo dismissal under Federal Rule of Civil Procedure 12(b)(6). *See Stone v. Travelers Corp.*, 58 F.3d 434, 436-37 (9th Cir. 1995). Under the *Noerr-Pennington* doctrine, the Supreme Court has held that persons seeking redress through administrative agencies and the courts are immune from antitrust liability for seeking such redress. *See Eastern R.R. Presidents Conference v. Noerr Motor Freight,* Inc., 365 U.S. 127, 144 (1961). Sham litigation is an exception to this grant of immunity. To determine if litigation is a sham, the Supreme Court instructs us to first determine if "the lawsuit [is) objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60-61 (1993). Then, "[o]nly if [the] challenged litigation is objectively meritless may a court examine the litigant's subjective motivation." *Id.* "[T]he court should focus on whether the baseless lawsuit conceals an attempt to interfere *directly* with the business relationships of a competitor, through the use of the governmental *process* — as opposed to the *outcome* of that process-as an anticompetitive weapon." *Id.* (emphasis in original) (citation and internal quotation marks omitted). In addition to this test, we require that "[w]hen the antitrust plaintiff challenges a single suit rather than a pattern

. . . a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anticompetitive." *Boulware v. State of Nevada, Dep't of Human Resources,* 960 F.2d 793, 797-98 (9th Cir. 1992) (citation and internal quotation marks omitted).

As an initial matter, the grant of summary judgment to ROT on the patent claims is no proof that HP's claims were baseless. *See Professional Real Estate Investors,* 508 U.S. at 65 (concluding that "[e]ven in the absence of supporting authority, [the defendant] would have been entitled to press a novel copyright claim as long as a similarly situated reasonable litigant could have perceived some likelihood of success"); *see also Liberty Lake Investments, Inc. v. Magnuson,* 12 F.3d 155, 158 (9th Cir. 1993) ("[W]hen the antitrust defendant has lost the underlying litigation, a court must resist the understandable temptation to engage in post hoc reasoning by concluding that an ultimately unsuccessful action must have been unreasonable or without foundation.") (quoting *Professional Real Estate Investors,* 508 at 60 n.5).

HP argues that its twelve patent claims were not objectively baseless and that they were based upon a reasonable extension of the theory of impermissible reconstruction, which prohibits the purchasers of a patented product from transforming the product into another product. HP argued in its suit against ROT for trademark and patent infringement that ROT's modification of the Stanley and Kukla cartridges was not permissible repair because items replaced (ink in the Stanley cartridge and the cap on Kukla cartridge) were not worn or spent and did not involve repair necessary to preserve the intended life of the cartridge. Instead, HP argued that ROT's modifications were designed to create a new, refillable, product and therefore constituted a reconstruction of a patented product.

Appendix A

ROT argues that HP's patent claims were baseless because: 1) HP did not explain infringement on nine of the twelve patents, but only discussed three patents in its Motion for Partial Summary Judgment; 2) HP did not file a claims chart identifying which patent claims were violated; 3) HP's assertion of infringement of U.S. Patent No. 4,931,811 (the " '811" patent) is a per se violation of antitrust law[1] and 4) HP's assertion of infringement of U.S. Patents No. 4,827,294 (the " '294" patent) and No. 5,108,503 (the " '503" patent) had nothing to do with any of the products involved in this case

We are not persuaded that HP's actions were objectively baseless or that they demonstrated grave abuse. We note that HP discussed its infringement theory with reference to several representative patent claims because the dispositive issue on eleven of them (excluding the ink patent) was the same: "whether ROT's modifications to unused HP ink-jet cartridges constituted an impermissible reconstruction of the cartridges." Nor do we find that a claims chart is a prerequisite for a suit.

The '811 patent claim is not like the patent misuse found in *Morton Salt-Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942). HP is not selling patented refillable cartridges, requiring its customers to buy only HP unpatented ink and suing a competitor for its creation of the cartridges; it is asserting that ROT made illegal modifications to HP's patented, non-refillable cartridges.

Although ultimately unsuccessful, HP's claims based on the '294 and '811 patents were not objectively baseless. Claim 3 of the '294 Patent describes an inkjet cartridge and its pen body

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1. ROT argues that it is a violation of the Sherman Act to attempt to use a patent on a container to establish a monopoly on the contents of the container. *See Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

housing with an ink storage compartment therein; ROT's modification of the Kukla cartridge involved breaking the cap off of this housing. HP's theory of infringement was that this action impermissibly modified the patented housing. Similarly, with respect to the '811 patent, HP did perform an infringement analysis of ROT's inks before it added the claim to its complaint on November 30, 1993, and it produced, documents setting forth that analysis on April 15, 1994.

Overall, HP's patent claims, while unavailing, are not objectively baseless nor do they demonstrate grave abuse, therefore, the judgment of the district court is affirmed.

AFFIRMED.

APPENDIX B — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA FILED JANUARY 22, 1996

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. CV 95-7284 (RMCx)

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, a New Jersey corporation,

Plaintiff,

HEWLETT-PACKARD COMPANY, a California corporation,

Defendants.

ORDER **DENYING** PLAINTIFF REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION'S MOTION FOR SUMMARY JUDGMENT AND **GRANTING IN PART WITH PREJUDICE AND WITHOUT LEAVE TO AMEND, GRANTING IN PART WITHOUT PREJUDICE** AND **WITH LEAVE TO AMEND** AND **DENYING IN PART** DEFENDANT HEWLETT-PACKARD'S MOTION TO DISMISS COMPLAINT.

Background

1. ***Factual Summary.***

This action stems from a trademark infringement lawsuit previously filed by Hewlett-Packard Company ("Hewlett-Packard") against Repeat-O-Type Stencil Mfg.

("Repeat-O-Type") in the Northern District of California and bearing case number C-92-3330-DLJ ("*Northern District* Action"). The following facts are undisputed.

The *Northern District* Action involved twelve separate patents and 98 claims. In that action, Hewlett-Packard contended that Repeat-O-Type violated various trademarks and patents relating to its ink jet cartridges used in conjunction with its ink jet printers. U.S. Patent No. 4,347,524 (" '524 Patent") concerns the apparatus for absorbing shocks to the ink supply of an ink jet printer. U.S. Patent No. 4,635,073 (" '073 Patent") concerns the replaceable thermal ink jet component and thermosonic beam bonding process for fabricating the same. U.S. Patent No. 4,683,481 (" '481 Patent") concerns the thermal ink jet common-slotted ink feed printhead. U.S. Patent No. 4,771,295 (" '295 Patent") concerns the thermal ink jet pen body construction having improved ink storage and feed capability. U.S. Patent No. 4,794,410 (" '410 Patent") concerns the barrier structure for thermal ink-jet printheads. U.S. Patent No. 4,794,411 (" '411 Patent") concerns the thermal ink-jet head structure with orifice offset from resistor. U.S. Patent No. 4,812,859 (" '859 Patent") concerns the multi-chamber ink jet recording head for color use. U.S. Patent No. 4,827,294 (" '294 Patent") concerns the thermal ink jet printhead assembly employing beam lead interconnect circuit. U.S. Patent No. 4,862,197 (" '197 Patent") concerns the process for manufacturing thermal ink jet printheads and the integrated circuit (IC) structures produced thereby. U.S. Patent No. 4,872,027 (" '027 Patent") concerns the printer having identifiable interchangeable heads. U.S. Patent No. 4,931,811 (" '811 Patent") concerns the thermal ink jet pen having a feedtube with improved sizing and is operational with a minimum of depriming. U.S. Patent No. 5,108,503 (" '503 Patent") concerns smear resistant inks for printers.

Appendix B

In the *Northern District* Action, Hewlett-Packard filed a motion for summary judgment seeking a finding that Claim 3 of the 294 Patent and Claim 2 of the 811 Patent were infringed by Repeat-O-Type's modifications to Hewlett-Packard's tri-color ink cartridge (HP 51625A inkjet print cartridge known as "Kukla") and its black ink cartridge (HP 1608A ink jet print cartridge known as "Stanley") which were impermissible reconstructions of those inventions. Hewlett-Packard also sought a finding on summary judgment that the Permissible Repair Doctrine cannot apply to Repeat-O-Type's modifications of the cartridges.

On February 7, 1995, Judge D. Lowell Jensen in the *Northern District* Action granted Hewlett-Packard's motion for summary judgment on the trademark infringement claims and denied Hewlett-Packard's motion on the patent claims. In addition, Judge Jensen granted Repeat-O-Type's motion for summary judgment on Hewlett-Packard's patent claims.

On August 30, 1995, Judge Jensen in the *Northern District* Action denied Repeat-O-Type's Motion For Leave To File Counterclaims on the grounds that the request was unduly delayed, prejudicial and futile under Rule 13(f). *See* August 30, 1995 Order attached to Repeat-O-Type's moving papers as Exhibit "7".

The present action seeks damages for antitrust violations, tortious interference with a prospective business advantage, abuse of process, unfair competition, and trade libel allegedly caused by Hewlett-Packard's filing and pursuit of the *Northern District Action* which was an alleged sham litigation.

Appendix B

2. *Procedural History.*

On October 26, 1995, Repeat-O-Type filed its Complaint For Violation Of U.S. And California Antitrust Laws; Tortious Interference With A Prospective Business Advantage; Abuse Of Process; Unfair Competition And Trade Libel in this Court.

On November 29, 1995, Repeat-O-Type filed its Motion For Summary Judgment And In The Alternative For Summary Adjudication Of Issues which is presently before this Court.

On December 18, 1995, Hewlett-Packard filed its Motion To Dismiss Complaint which is also presently before this Court.

No Status Conference has yet been scheduled in this action.

Discussion

1. *Standard.*

A. *Motion To Dismiss.*

In considering a motion a dismiss pursuant to Rule 2(b)(6) of the Federal Rules of Civil Procedure, the Court must assume that the plaintiff's allegations are true, and must construe the complaint in a light most favorable to the plaintiff. *United States v. City of Redwood City,* 640 F.2d 963, 37 (9th Cir. 1981) Moreover, even if the face of the pleadings indicates that recovery is unlikely, the plaintiff is still entitled to offer evidence in support of the complaint. *Scheuer v. Rhodes,* 416 U.S. 232, 236 (1974); *Redwood City,* 640 F.2d at 967. Finally, the court may not dismiss complaints pursuant to Rule 12(b)(6) "unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his

claim which would entitle him to relief." *Conley v. Gibson,* 355 U.S. 41, 45-46 (1957); *Russel v. Landrieu,* 621 F.2d 1037, 1039 (9th Cir. 1980). Where the parties must rely upon extrinsic evidence to resolve an issue originally brought on a motion to dismiss, this Court may convert the motion to a motion for summary judgment. Rule 12(b) of the Federal Rules of Civil Procedure.

B. ***Motion For Summary Judgment.***

Under Rule 56(c) of the Federal Rules of Civil Procedure, summary judgment is proper only where "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." The moving party has the burden of demonstrating the absence of a genuine issue of fact for trial. *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 256 (1986). If the moving party satisfies the burden, the party opposing the motion must set forth specific facts showing that there remains a genuine issue for trial. Federal Rules Civil Procedure, Rule 56(e).

A non-moving party who bears the burden of proof at trial to an element essential to its case must make a showing sufficient to establish a genuine dispute of fact with respect to the existence of that element of the case or be subject to summary judgment. *Celotex Corp. v. Catrett,* 477 U.S. 317, 322 (1986). Such an issue of fact is a genuine issue if it reasonably can be resolved in favor of either party. *Anderson,* 77 U.S. at 250-51. The non-movant's burden to demonstrate a genuine issue of material fact increases when the factual context renders her claim implausible. *Matsushita Electric Industrial Co. v. Zenith Radio*

Corp., 475 U.S. 574, 587 (1986). Thus, mere disagreement or the bald assertion that a genuine issue of material fact exists, no longer precludes the use of summary judgment. *Harper v. Wallingford*, 877 F.2d 728 (9th Cir. 1989); *California Building Products, Inc. v. Franciscan Ceramics, Inc.*, 818 F.2d 1466, 1468 (9th Cir. 1987), *cert. denied*, 108 S.Ct. 698 (1988).

2. Summary Judgement Is Not Warranted, But Dismissal Of Repeat-O-Type's Counts IV and VI For Violation Of Federal and California Antitrust Laws Without Leave To Amend Is Warranted.

In the present action, Repeat-O-Type seeks damages from Hewlett-Packard for various claims stemming from Hewlett-Packard's filing and pursuit of the *Northern District* Action on grounds that the *Northern District* Action was objectively useless and constituted sham litigation. This Court disagrees and finds that dismissal of Counts IV and VI is warranted without leave to amend.

Under the *Noerr-Pennington* doctrine, a person who seeks redress through the administrative agencies and the courts is immune from antitrust liability for seeking such redress, unless the litigation is sham. *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 113 S.Ct. 1920 (1993). The *Columbia Pictures* court held that "First, the suit must be 'objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits"; second, the baseless lawsuit must conceal " 'an attempt to interfere directly with the business relationships of a competitor.' The two parts of the test operate in succession: Only if the suit is found to be objectively baseless does the court proceed to examine the litigant's subjective intent." 113 S.Ct. at 1928. To state a claim under the sham

exception to *Noerr-Pennington* immunity, a plaintiff must include allegations of the specific activities, not protected under the doctrine, that support the claim. *Franchise Realty Interstate Corp. v. San Francisco Local Joint Exec. Bd.*, 542 F.2d 1076, 1082 (9th Cir. 1976) , *cert. denied,* 430 U.S. 940 (1977). The Ninth Circuit has held that "[w] hen the antitrust plaintiff challenges a single suit rather than a pattern . . . 'a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive.' " *Bouleware v. State of Nevada, Department of Human Resources,* 960 F.2d 793, 797-798 (9th Cir. 1992).

In essence, Repeat-O-Type's present action against Hewlett-Packard seeks reconsideration of Judge Jensen's rulings in the *Northern District* Action. Repeat-O-Type, however, fails to provide this Court with any basis upon which to completely overturn Judge Jensen's prior rulings. This Court has reviewed and takes judicial notice of the pleadings, filings and orders from the *Northern District* Action which are filed in support of motions herein. This Court finds that for the reasons stated herein Repeat-O-Type's present action is nothing more than a rehashing of arguments and claims previously determined by Judge Jensen in the *Northern District* Action which this Court will not disturb.

In the *Northern District* Action, Hewlett-Packard filed motion for summary judgment seeking a finding that Claim 3 of the '294 Patent and Claim 2 of the '811 Patent were infringed by Repeat-O-Type's modifications to the Kukla and Stanley ink jet print cartridges which were impermissible reconstructions of those inventions. Hewlett-Packard also sought a finding on summary judgment that the Permissible Repair Doctrine cannot apply to

Appendix B

Repeat-O-Type's modifications of the cartridges. On February 7, 1995, Judge D. Lowell Jensen in the *Northern District* Action granted Hewlett-Packard's motion for summary judgment on the trademark infringement claims and denied Hewlett-Packard's motion on the patent claims. In addition, Judge Jensen granted Repeat-O-Type's motion for summary judgment on Hewlett-Packard's patent claims. In reviewing the patents at issue, Judge Jensen found that:

> "Repeat-O-Type converted the Kukla cartridge by breaking the seal of the cap and replacing the cap with shims so that the cap could be removed and the cartridge refilled by the consumer. Repeat-O-Type put the modified cartridges back in the original Hewlett-packard boxes. The original Hewlett-Packard boxes, now housing the modified cartridges, along with a supply of refill ink, were put inside an outer package with a see-through plastic 'window,' and sold by Repeat-O-Type as refill kits. Repeat-O-Type generally placed name on the flap of the outer package, although certain packages were sold without the Repeat-O-Type logo anywhere on the product. The original Hewlett-Packard instructions were removed from the package and replaced with Repeat-O-Type's own instructions . . . During the TRO hearing, Judge Fern Smith made the following comments concerning Repeat-O-Type' activities:
>
> > 'I have to say to the defendants, it's been along time since I've seen a more blatant, what I think, copying of somebody else's logo. . . . You have modified the product as far as I can tell. Whether you've

> modified to make it better or worse, I don't know. But people, I think, are understandably very likely to be confused. If I were buying that, I would assume that it was authorized in some way by Hewlett-Packard, if not made by Hewlett-Packard.' "

See February 7, 1995 Order, at pp. 3-4, attached to Repeat-O-Type's moving papers as Exhibit 6. In addition, Judge Jensen held that:

> "The 'permissible repair' doctrine permits a purchaser to repair or replace an unpatented element of a patented combination to 'preserve its fitness for so far as may be affected by wear or breakage. . . . In the Court's opinion, the doctrine instead provides an exception to the general ban on a purchaser's ability to make a product. That is, a purchaser can use or resell a product without it being a violation of the creator's patent rights. However, a purchaser normally cannot remake the same product without it being a violation of the creator's patent rights. Courts have created a 'permissible repair' exception to this principle, however. When a patent owner has a combination patent on a product which is composed of a number of unpatented elements, it is permissible for the purchaser or another to 'fix' or 'make' certain component parts without violating the patent owner's rights . . .
>
> In the instant case, Hewlett-Packard does not have a combination patent on it Stanley and Kukla cartridges

— only on certain elements of the cartridges. Thus, by changing certain nonpatented elements of the cartridges, Repeat-O-Type is not making or remaking anything that Hewlett-Packard has a patent on. . . . Hewlett-Packard has not presented evidence that Repeat-O-Type has recreated anything that Hewlett-Packard has a patent on; in fact, what Hewlett-Pack seems to be complaining about is that Repeat-O-Type is making an entirely new product, not that Repeat-O-Type is making a component that Hewlett-Packard has a patent on."

Id. at pp. 13-14. Judge Jensen then concluded:

"For the above reasons, the Court does not find Hewlett-Packard's argument that the dispositive issue is repair-versus-reconstruction' availing. As a purchaser, Repeat-O-Type cannot be liable for patent infringement for using or selling Hewlett-packard's products. Therefore, Repeat-O-Type can only be liable for patent infringement for using or selling Hewlett-Packard's products. Therefore, Repeat-O-Type can only be liable for making a product that is patented by Hewlett-Packard. Hewlett-Packard has not established that Repeat-O-Type has made a product that Hewlett-Packard has a patent one (sic).

It is important to note that Hewlett-Packard's patents are not for the Stanley and Kukla cartridges themselves; they are for certain elements which are *in* the cartridges. Specifically, Hewlett-Packard claims that the Stanley and Kukla cartridges read on Hewlett-

Appendix B

Packard's '811 patent and '294 patent, and the Repeat-O-Type's modifications infringe these patents.

Patent '811 is for a 'thermal ink jet pen having a feedtube with improved sizing and operational with a minimum of depriming.' The two claims for this patent are 'in combination, an ink jet pen having an ink reservoir and an ink jet thin film printhead and a standpipe interconnecting said reservoir and said printhead and having an air accumulating section adjacent said reservoir, said printhead has an orifice plate therein with orifii openings . . .' I and 'a thermal ink jet pen including an ink reservoir therein, and a thin film printhead interconnected to said reservoir by way of a standpipe . . . '

Components of the Stanley inkjet cartridge are covered by Hewlett-Packard Patent '811, claim 2. Contrary to Hewlett-Packard's assertion, however, replacing the ink in the ink reservoir does not constitute infringement, because ink is to a patented/material element of claim 2, and Hewlett-Packard does not have a combination patent on the cartridge itself. In fact, ink does not even appear to be an 'element' of claim 2. Therefore, Repeat-O-Type's actions in replacing the ink in the Stanley inkjet cartridge do not constitute patent infringement. Hewlett-Packard cites to no case for the proposition that changing a non-patented component that 'relates to' a claimed element of a patented component constitutes impermissible 'reconstruction.'

Patent '294 is for a 'thermal ink jet printhead assembly employing beam lead interconnect circuit.'

Appendix B

> Components of the Stanley and Kukla print cartridges are probably covered by claims of Hewlett-Packard patent '294. Even if the same cartridges, if made by someone other than Hewlett-Packard without permission, would not literally infringe '294, they might well infringe under the Doctrine of Equivalents, provided that the cartridges work the same way to perform substantially the same function to achieve the same result. However, even if various components of the cartridges are covered by the '294 patent, the cap is not a patented element of claim 3. Thus, Repeat-O-Type's breaking the seal of the cap and replacing the cap with shims so that the cap could be removed and the cartridge refilled by the consumer, does not constitute impermissible 'reconstruction.'
>
> For these reasons, Hewlett-Packard has not presented evidence sufficient to create a genuine issue of material fact that Repeat-O-Type has infringed its patents. Defendants Repeat-O-Type and Fred Keen are entitled to summary judgment on the patent claims."

Id.

On August 30, 1995, Judge Jensen in the *Northern District* Action denied Repeat-O-Type's Motion For Leave To File Counterclaims on the grounds that the request was unduly delayed, prejudicial and futile under Rule 13(f). *See* August 30, 1995 Order attached to Repeat-O-Type's moving papers as Exhibit "7". These proposed counterclaims included: (1) unfair competition under California Code § 172300 et seq.; (2) intentional interference with a prospective business advantage under California law; (3) negligent interference with a prospective

business advantage under California law; (4) antitrust activities violation of the Sherman Act, 15 U.S.C. § 2 and the Clayton Act, 15 U.S.C. § 14; (5) abuse of process in violation of California law; (6) violation of California Business and Professions Code §§ 16700-16760 (combination in restraint of trade); unlawful seizure under 15 U.S. C. § 116 (d) (11); (7) unlawful seizure under California Business and Professions Code § 14340(c); and (8) trade libel under California law. First, Judge Jensen found the motion untimely:

> "There is no excuse for Repeat-O-Type's waiting over two years to file its counterclaims challenging the bases for this action.
>
> Repeat-O-Type further argues that the patent claims, first filed in the First Amended Complaint on November 2, 1992, are without merit and were filed to harass Repeat-O-Type. Repeat-O-Type claims that it had not been represented by federally registered patent attorneys before September 6, 1994, but since the patent claims were filed almost two years earlier, Repeat-O-Type's failure to timely obtain patent counsel ... Repeat-O-Type claims that Hewlett-Packard has made false and damaging statements against it competitors. Although Repeat-O-Type does not explicitly allege the time frame for these allegations, it appears the time frame for these statements have been occurring over a lengthy time period, and there is no justification for the delay."

Id. at p. 7-8.

In determining whether the requested amendments were utile, Judge Jensen held:

Appendix B

"In order for a lawsuit **to constitute a 'sham' litigation, it 'must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits."** Id. at 1927-28. Only then may the court inquire into the party's subjective motivation. *Id.*

It cannot be reasonably contended that this litigation is a 'sham.' Plaintiff has prevailed on its trademark, unfair competition, and false designation claims. Earlier, Judge Smith granted Hewlett-Packard a TRO on the trademark claims and this Court granted Hewlett-Packard a preliminary injunction. '[A] successful "effort to influence governmental action . . . certainly cannot be characterized as a sham.) (quotation omitted). *Id.* at 1927; *see also USS-Posco Indus. v. Contra Costa Cty. Bldg. & Constr.*, 31 F.3d 800, 811 (9th Cir. 1994).

Even looking at the patent claims alone, it cannot be said that institution of the proceedings was 'objectively baseless' or 'lacking in probable cause. ." id. at 1329-30. Although Hewlett-Packard's theory that Repeat-O-Type's modification of its patent was ultimately unavailing, it was 'warranted by existing or at least based on an objectively 'good faith argument for the extension, modification, or reversal of existing law." *Id.* **at 1930-31 (quoting Rule 11). In fact, the Court implicitly rejected Repeat-O-Type's argument by denying Repeat-O-Type's request for Rule 11 Sanctions."** (Emphasis added).

Id. at pp. 9-10.[1] This Court agrees with Judge Jensen well-reasoned analysis of Repeat-O-Type's proposed counterclaims which now appear before this Court substantially unchanged and based upon the same allegations regarding Hewlett-Packard's filing and maintenance of the *Northern District* Action against Repeat-O-Type. Repeat-O-Type fails to provide this Court with any reason to overturn Judge Jensen's prior rulings other than to reargue their same position. For the same reasons, this Court finds that the *Northern District* Action was not objectively baseless, did not constitute sham litigation and Repeat-O-Type fails to state a claim for federal or California law antitrust violations against Hewlett-Packard. Therefore, this Court **denies** Repeat-O-Type's Motion For Summary Judgment on Counts IV and VI and **grants** Hewlett-Packard's Motion to Dismiss as to Counts IV and VI **with prejudice** and **without leave to amend**.

3. *Dismissal Of Count V For Abuse Of Process Is Warranted With Leave To Amend.*

To state a claim of abuse of process, a plaintiff must allege: (1) an ulterior purpose; and (2) a willful act in the use of the process not proper in the regular conduct of the proceeding. *Oren Royal Oaks Venture v. Greenberg, Bernhard, Weiss & Karma, Inc.* (1986) 42 Cal.3d 1157, 1168-1169. The "mere filing or maintenance of a lawsuit — even for an improper purpose — is not a proper basis for an abuse of process action." 42 Cal.3d at 1169.

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1. This Court notes that Judge Jensen did not specifically discuss the merits or lack thereof of the '503 Patent, however, this lack of discussion does not demonstrate that the '503 Patent claim was meritless as Repeat-O-Type contends. In determining the summary judgment motions in the *Northern District* Action, Judge Jensen was provided with evidence as to this claim and he concluded that Hewlett-Packard's patent claims were not objectively baseless.

Appendix B

Repeat-O-Type has alleged no other facts in support of its abuse of process claim other than the filing of the *Northern District* Action. This Court is uncertain whether, Repeat-O-Type aware of any additional facts that may cure the defects in this cause of action. As a result, this Court **grants** Hewlett-Packard's Motion To Dismiss Count V for abuse of process **without prejudice and with 30 days leave to amend.**

4. *Dismissal Of Count VII For Trade Libel Is Warranted Without Leave To Amend.*

Hewlett-Packard seeks dismissal of Count VII for trade libel on the grounds that Repeat-O-Type fails to identify statements or writings which libels Repeat-O-Type or its products. This Court agrees. This Court finds that Repeat-O-Types trade libel claim fails to state a claim upon which relief can be granted because Repeat-O-Type fails to allege any statement or writing made by Hewlett-Packard which disparages Repeat-O-Type or its products. *Leonardini v. Shell Oil Co.* (1989) 216 Cal.App.3d 547, 572, *cert. denied* 498 U.S. 919 (1990).

In addition, Repeat-O-Type relies on two documents which allegedly provide information regarding Hewlett-Packard's position on refilling of its ink-jet cartridges, but this Court finds that neither of those documents refers to nor mentions Repeat-O-Type or its products. Further, Repeat-O-Type has pleaded no facts to support its allegation that the "CompuServe" message even originated from Hewlett-Packard, let alone that it supports the trade libel claim. *See* Exhibit "2" to Repeat-O-Type's moving papers. Finally, this Court notes that Judge Jensen already found that this trade libel claim would be subject to a motion to dismiss because there was no allegation of any statement referring to Repeat-O-Type. See Exhibit "G", at p. 12. This Court **grants**

Appendix B

Hewlett-Packard's Motion To Dismiss Count VII **with prejudice** and **without leave to amend.**

5. ***Dismissal Of Counts I, II and III Is Warranted In Part.***

Hewlett-Packard seeks dismissal of Count I for unfair competition, Count II for intentional interference with a prospective business advantage, and Count III for negligent interference with a prospective business advantage on the grounds that the mere filing of the *Northern District* Action does not give rise to such claims. *Pacific Gas & Electric Co. v. Bear Stearns & Co.* (1990) 50 Cal.3d 1118, 1123. This Court agrees in part.

This Court finds that to the extent Counts I, II or III rely upon the mere filing of the *Northern District* Action, said Counts should be dismissed with prejudice. Although Repeat-O-Type's state law claims are in part based upon the filing of the *Northern District* Action, Repeat-O-Type's state law claims are also based in part upon an alleged continuing course of conduct:

> "to discourage the refilling of Hewlett-Packard cartridges by other parties, including customers and other businesses. This course of conduct includes, inter alia, sending brochures and Compuserve messages to customers and potential customers of Repeat-O-Type, which messages deliberately make false and misleading statements concerning ink made by parties other than Hewlett-Packard (sic) In particular, the comments made are untrue as they relate to Repeat-O-Type's ink . . . Also, Hewlett-Packard has sued other companies as part of its ongoing attempt to keep others out of the refill business.

> 11. Hewlett-Packard's attempts to discourage the refilling of Hewlett-Packard cartridges are motivated by a desire to have purchasers of Hewlett-Packard cartridges purchase new cartridges, each time a Hewlett-Packard cartridge runs out ink (sic) (or one or more colors of ink, in the case of tri-color cartridges) and to have purchasers of Hewlett-Packard cartridges use only Hewlett-Packard ink.
>
> 12. The cost to purchasers of Hewlett-Packard cartridges is many times the cost of refilling Hewlett-Packard cartridges. . . .

See Complaint, ¶¶ 10-12. This Court finds that these remaining allegations against Hewlett-Packard state sufficient facts to state claims against Hewlett-Packard for unfair competition, intentional interference with a prospective business advantage, and negligent interference with a prospective business. Therefore, this Court **grants in part with prejudice** and **without leave to amend** and **denies in part** Hewlett-Packard's Motion To dismiss Counts I, II, and III.

IT IS SO ORDERED.

Dated: 1-22-96

s/ Dickran Tevrizian
Dickran Tevrizian, Judge
United States District Court

APPENDIX C — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT FILED MAY 20, 1998

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 96-55205

D.C. No. CV-95-07284-DT (RMCx)

REPEAT-O-TYPE STENCIL, MANUFACTURING CORPORATION, a New Jersey corporation,

Plaintiff/Appellant,

v.

HEWLETT-PACKARD COMPANY, a California corporation,

Defendant-Appellee.

ORDER

Before: BROWNING, FLETCHER and KOZINSKI, Circuit Judges

The panel has voted to deny appellant's petition for rehearing and to reject the suggestion for rehearing en banc.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35.

Appendix C

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

APPENDIX D — COMPLAINT FOR VIOLATION OF U.S. AND CALIFORNIA ANTITRUST LAWS; TORTIOUS INTERFERENCE WITH A PROSPECTIVE BUSINESS ADVANTAGE; ABUSE OF PROCESS; UNFAIR COMPETITION AND TRADE LIBEL, FILED OCTOBER 26, 1995

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IN THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
(Western Division)

Case No. 95-7284 DT (RMCx)

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, a New Jersey corporation,

Plaintiff,

v.

HEWLETT-PACKARD COMPANY, a California Corporation,

Defendant

Appendix D

COMPLAINT FOR VIOLATION OF U.S. AND CALIFORNIA ANTITRUST LAWS; TORTIOUS INTERFERENCE WITH A PROSPECTIVE BUSINESS ADVANTAGE; ABUSE OF PROCESS; UNFAIR COMPETITION AND TRADE LIBEL

DEMAND FOR JURY TRIAL

Plaintiff, REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION (hereinafter referred to as "REPEAT-O-TYPE"), sues Defendant HEWLETT-PACKARD and alleges as follows:

JURISDICTION

This Court has jurisdiction over the parties and the subject matter of this action by reason of diversity of citizenship pursuant to 28 U.S.C. §1332. The damages to Repeat-O-Type are in excess of one million dollars.

Jurisdiction is also based on Title 15 U.S.C. §15; Title 15 U.S.C. §2 (Sherman Act) and Title 15 U.S.C. §14 (Clayton Act).

This Court also has ancillary jurisdiction over the California state causes of action.

PARTIES

1. Plaintiff, Repeat-O-Type Stencil Manufacturing Corporation, Inc., is a New Jersey corporation with its principal place of business at 665 State Highway 23, Wayne, New Jersey 07470 and is and was, at all times material hereto, doing business in this District.

2. Defendant, Hewlett-Packard Company is a California corporation doing business throughout the State of California and in particular in Los Angeles County.

3. On November 2, 1992, Hewlett-Packard filed an amended complaint in case of Hewlett-Packard Company vs. Repeat-O-Type Stencil Manufacturing Corporation, Inc., Civil Action No. C-92-3330 DLJ, in the U.S. District Court for the Northern District of California. That pleading entitled "First Amended Complaint" alleged infringement of various Hewlett-Packard patents. Subsequent to the filing of that the first amended complaint, Hewlett-Packard, in that same action, filed two additional amended complaints. Each amended complaint contained counts of patent infringement.

4. There was no colorable basis in fact or law for each and every one of the allegations of patent infringement contained in each and every one of the amended complaints filed by Hewlett-Packard in this pending litigation. The patent lawsuit was a sham. This fact was known to Hewlett-Packard and its attorneys Townsend and Townsend and Crew who had not even prepared a claims chart prior to filing the complaint. It was also known to its attorneys Ireli & Manella who prepared the amended complaints and prosecuted the patent case. Irell & Manella also never prepared a claims chart. On February 7, 1995, the court granted Repeat-O-Type's motion for summary judgment and ruled that there was no legal basis for Hewlett-Packard's patent infringement lawsuit.

5. In its third amended complaint, Hewlett-Packard filed twelve separate counts of patent infringement. Each count being a separate independent distinct cause of action.

6. In Hewlett-Packard's opposition to Repeat-O-Type's motion for summary judgment, Hewlett-Packard could not even come up with the reasons for it having filed nine out of the twelve patents. It presented no arguments or justification for having led these nine patent cases against Repeat-O-Type and thereby tacitly admitted that there was absolutely no objective legal basis whatsoever for filing nine patent infringement lawsuits against Repeat-O-Type.

7. With regard to the remaining three patents, one of the patents was directed to a device which was not even part of the products being sold by Repeat-O-Type, and this fact was well known to Hewlett-Packard which engaged in a deliberate attempt to misrepresent to the court that the patent related to the accused products.

8. Of the remaining two patents, one was a patent on a formula for ink. That patent for ink was filed as an amendment to the amended complaint; it was filed without giving any notification to Repeat-O-Type; it was filed without Hewlett-Packard ever having done any analysis of Repeat-O-Type's ink to determine whether Repeat-O-Type's ink infringed the Hewlett-Packard's ink formula patent, and finally, the formula ink which Repeat-O-Type was in fact using did not read upon any of the claims of Hewlett-Packard's ink formula patent.

9. The last remaining patent was a patent on the cartridge which Repeat-O-Type was purchasing from Hewlett-Packard and thereafter selling to the public. Repeat-O-Type was removing the original Hewlett-Packard black ink and replacing it with Repeat-O-Type colored ink, which the court held Repeat-O-Type had every right to do, since under the first sale doctrine, Hewlett-Packard's patent rights expired upon the sale of the

cartridges to Repeat-O-Type. Hewlett-Packard's theory of patent infringement was that by replacing Hewlett-Packard ink with Repeat-O-Type ink, Repeat-O-Type was reconstructing Hewlett-Packard's device, and therefore under the repair-reconstruction doctrine, Repeat-O-Type was infringing Hewlett-Packard's patent. In its order granting Repeat-O-Type's motion for summary judgment, the court rejected this theory. It correctly ruled that the patent was only on the cartridge and there could be no reconstruction of the cartridge by changing the contents. Not only was this theory of Hewlett-Packard's not covered by the repair-reconstruction doctrine, but in fact was a per se violation of the antitrust laws, because Hewlett-Packard was attempting to utilize its patent on the container as a means of establishing monopoly on the contents of the container, to wit, the ink. Not only is this a violation of the antitrust laws, but the fact that it is such a violation is well known and established law, see e.g., *Morton Salt Co. v. G. S. Suppiger Co.*, (1942) 314 U.S. 488, 86 L. Ed. 363, 62 S. Ct. 402, 52 U.S.P.Q. 30, reh. denied, 315 U.S. 826, 86 L. Ed. 1222, 62 S. Ct. 620.

10. Hewlett-Packard has been and continues to be involved in an ongoing course of conduct to discourage the refilling of Hewlett-Packard cartridges by other parties, including customers and other businesses. This course of conduct includes, inter alia, sending brochures and Compuserve messages to customers and potential customers of Repeat-O-Type, which messages deliberately make false and misleading statements concerning ink made by parties other than Hewlett-Packard In particular, comments made are untrue as they relate to Repeat-O-Type's ink. Hewlett-Packard has admitted that it made no investigation of Repeat-O-Type's products to determine the comments about refill ink products were applicable to Repeat-O-Type's products. Copies of a brochure and a Compuserve message are attached

hereto as Exhibit's 1 and 2, respectively. Also, Hewlett-Packard has sued other companies as part of its going attempt to keep others out of the refill business.

11. Hewlett-Packard's attempts to discourage the refilling of Hewlett-Packard cartridges are motivated by a desire to have purchasers of Hewlett-Packard cartridges purchase new cartridges, each time a Hewlett-Packard cartridge runs out ink (or one more colors of ink, in the case of tri-color cartridges) and to have purchasers of Hewlett-Packard cartridges use only Hewlett-Packard ink.

12. The cost to purchasers of Hewlett-Packard cartridges is many times the of refilling Hewlett-Packard cartridges. The fact is well known to Hewlett-Packard.

13. At no time prior to instituting the above referenced litigation or filing of amended complaints of patent infringement did Hewlett-Packard notify Repeat-O-Type of any concerns about any of the allegations in any of its complaints.

14. None of the Hewlett-Packard products which are sold by Repeat-O-Type contain patent marking to put anyone on notice as to the patents included in Hewlett-Packard's complaints.

15. Hewlett-Packard's filing of the baseless patent claims against Repeat-O-Type coupled with its other efforts to discourage consumers from refilling its cartridges was done for the purpose of driving Repeat-O-Type out of the business of selling Hewlett-Packard cartridges and Repeat-O-Type ink so as to prevent the refilling of Hewlett-Packard cartridges and wrongfully extending the scope of its patent rights.

Appendix D

16. Hewlett-Packard sells its inkjet cartridges within the State of California and in interstate commerce throughout the United States, and has a monopoly share of the market for ink for use in Hewlett-Packard cartridges. As shown in Exhibit 1, Hewlett-Packard itself claims to have 97% of this market.

17. Hewlett-Packard has illegally attempted to establish a monopoly share of market for ink for use in Hewlett-Packard cartridges in violation of the antitrust laws of California and the United States.

18. Hewlett-Packard has monopoly power in the market for ink for use in Hewlett-Packard cartridges and has been able to use this power to illegally maintain this monopoly as set forth in Paragraph 16 above.

19. Both Hewlett-Packard and Repeat-O-Type have overlapping customers and markets as alleged in Paragraphs 33 and 34 of Hewlett-Packard's Third Amended Complaint in the above referenced lawsuit.

20. As a result of Hewlett-Packard's-conduct, Repeat-O-Type has suffered loss of sales, loss of personnel, loss of reputation, attorney fees, loss of personnel time, costs and expenses involved in defending the sham patent infringement litigation.

COUNT I

21. The conduct of Hewlett-Packard as alleged in paragraphs 1-15, constitute unfair competition under California Code § 17200 et seq.

Appendix D

COUNT II

22. The conduct of Hewlett-Packard as alleged in paragraphs 1-15, constitutes intentional interference with a prospective business advantage under California law.

COUNT III

23. The conduct of Hewlett-Packard as alleged in paragraphs 1-15, constitutes negligent interference with a prospective business advantage under California law.

COUNT IV

24. The conduct of Hewlett-Packard as alleged in paragraphs 1-15, constitutes antitrust activities in violation of the Sherman Act 15 U.S.C. §2 and the Clayton Act, 15 U.S.C. § 14.

COUNT V

25. The conduct of Hewlett-Packard as alleged in paragraphs 1- 15, constitutes abuse of process in violation of California law.

COUNT VI

26. The conduct of Hewlett-Packard as alleged in paragraphs 1-15, constitutes a violation of California Business and Professions Code §§ 16700 through 16760.

COUNT VII

27. The conduct of Hewlett-Packard as alleged in paragraphs 1- 15, constitutes trade libel under California Law.

Appendix D

Wherefore Repeat-O-Type prays for the following relief:

a) an injunction to prevent Hewlett-Packard and its attorneys from continuing to engage in the conduct alleged;

b) monetary damages;

c) treble damages;

d) punitive damages;

e) pre and post judgment interest;

f) costs of the litigation;

g) attorney fees;

h) restitution; and

i) such other relief as this court may deem just and proper.

Respectfully submitted,

Dated: October 25, 1995

s/ Edward F. O'Connor
Edward F. O'Connor, a member
of POMS, SMITH, LANDE &
ROSE Professional Corporation

Attorneys for Plaintiff
REPEAT-O-TYPE STENCIL
MANUFACTURING

Appendix D

CORPORATION, INC.

Repeat-O-Type hereby demands trial by jury of all issues triable by jury in this case.

Dated: October 25, 1995

s/ Edward F. O'Connor
Edward F. O'Connor, a member
of POMS, SMITH, LANDE &
ROSE Professional Corporation

Attorneys for Plaintiff
REPEAT-O-TYPE STENCIL
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APPENDIX E — HEWLETT-PACKARD'S RESPONSE TO REPEAT-O-TYPE'S SECOND SET OF INTERROGATORIES (NOS. 3-25)

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

Civil Action No. C 92-3330 DLJ

HEWLETT-PACKARD COMPANY, a California corporation,

Plaintiff,

Appendix E

v.

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, INC., a New Jersey corporation, and FRED KEEN, an individual,

Defendants.

HEWLETT-PACKARD'S RESONSE TO REPEAT-O-TYPE'S SECOND SET OF INTERROGATORIES (NOS. 3-25)

Plaintiff Hewlett-Packard Company ("Hewlett-Packard") responds to Defendant Repeat-O-Type Stencil Manufacturing Corporation, Inc.'s ("Repeat-O-Type") Second Set of Interrogatories (Nos. 3-25), dated September 8, 1994, as follows:

I. INTRODUCTION

These responses are made solely for the purposes of this formed by boiling the ink; 3) over time, inks will attack the adhesive that attaches the print head to the cartridge, which can cause leaking; and 4) vapor loss can cause the loss of water from the ink solution, which causes the ink to become thicker, which can also cause clogging and can also cause poor print quality.

INTERROGATORY NO. 21:

State each and every claim of each and every patent which you allege is infringed by each of Defendant Repeat-O-Type's accused products. Your answer should include a claim by claim analysis of each element of Defendant Repeat-O-Type's products, i.e., a claim chart.

Appendix E

RESPONSE TO INTERROGATORY NO. 21

Hewlett-Packard objects to Interrogatory No. 21 on the grounds that it is compound and contains multiple subparts, which violates Local Rule 230-1(b) and which causes these Interrogatories to exceed the number of interrogatories permitted by Rule 33(a) of the Federal Rule of Civil Procedure.

Hewlett-Packard further objects to Interrogatory No. 21 on the grounds that it is premature contention discovery in that discovery is currently ongoing and has not yet concluded. Hewlett-Packard's investigation of the facts may reveal additional facts which support the claims for relief set forth in its Third Amended and Supplemental Complaint. Hewlett-Packard expressly reserves its right to modify and/or supplement its response to this Interrogatory after the conclusion of discovery. Hewlett-Packard further objects to Interrogatory No. 21 on the grounds that it seeks information protected from discovery by the attorney-client privilege and/or the work-product immunity doctrine.

Without waiving any of the foregoing objections or any of Hewlett-Packard's General Objections, and subject to all of those objections, Hewlett-Packard states that no such claim chart has been prepared. At the present time, Hewlett-Packard alleges that each and every claim of each and every patent in the Third Amended and Supplemental Complaint is alleged to be infringed by the accused Repeat-O-Type products.

* * *

APPENDIX F — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA FILED FEBRUARY 7, 1995

No. C-92-3330 DLJ

HEWLETT-PACKARD COMPANY,

Plaintiff,

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION and FRED KEEN,

Defendants.

ORDER

On November 23, 1994, the Court heard arguments on plaintiff's and defendants' cross-motions for summary judgment on plaintiff's patent claims and plaintiff's motion for summary judgment on the trademark claims. Bruce W. Schwab of Townsend and Townsend Khourie and Crew and Morgan Chu of Irell & Manella appeared on behalf of plaintiff Hewlett-Packard Company. Edward F. O'Connor of Poms, Smith, Lande & Rose appeared on behalf of defendant Repeat-O-Type Stencil Manufacturing Company. David A. Gauntlett of Callahan & Gauntlett appeared in behalf of defendant Fred Keen. Having considered the arguments of counsel and the papers submitted, the Court hereby GRANTS plaintiff partial summary judgment on the issue of liability for the trademark claims and GRANTS defendants summary judgment on the patent claims.

STATEMENT OF FACTS

On August 19, 1992, plaintiff Hewlett-Packard Company ("Hewlett-Packard") filed this action alleging trademark

infringement, false designation, description and representation, and unfair competition and deceptive trade practices by Repeat-O-Type Stencil Manufacturing Company ("Repeat-O-Type"). In its Third Amended Complaint filed July 21, 1994, Hewlett-Packard added Fred Keen, president of Repeat-O-Type, as an additional defendant, and added patent claims against the defendants.

Plaintiff's claims arise from the sale by Repeat-O-Type of two modified Hewlett-Packard print cartridges. Repeat-O-Type purchased two types of Hewlett-Packard inkjet cartridges, HP 51608A inkjet print cartridge (the "Stanley cartridge") and the HP 51625A inkjet print cartridge (the "Kukla" cartridge), from authorized Hewlett-Packard distributors. Repeat-O-Type converted the Stanley cartridge to contain colored ink rather than the original black ink. Repeat-O-Type converted the Kukla cartridge by breaking the seal of the cap and replacing the cap with shims so that the cap could be removed and the cartridge refilled by the consumer. Repeat-O-Type put the modified cartridges back in the original Hewlett-Packard boxes. The original Hewlett-Packard boxes, now housing the modified cartridges, along with a supply of refill ink, were put inside an outer package with a see-through plastic "window" and sold by Repeat-O-Type as refill kits. Repeat-O-Type generally placed its name on the flap of the outer package, although certain packages were sold without the Repeat-O-Type logo anywhere on the product.[1] The original Hewlett-Packard instructions were removed from the package and replaced with Repeat-O-Type's own instructions.

Hewlett-Packard claims that Repeat-O-Type's modifications infringe Hewlett-Packard's patent rights, and that Repeat-O-

1. ROT claims that these products were sold only outside the United States, and that it was intended that the buyer would place its own name on the flap prior to resale.

Appendix F

Type's use of Hewlett-Packard's trademarks creates confusion as to the product's source.[2] In its Amended Complaint, Hewlett-Packard claims violations of 11 of its patents, but for Purpose of summary judgment, Hewlett-Packard restricts its argument to two of its patents, Patent No. 4,827,294 ("the '294 patents") and Patent No. 4,931,811 ("the '811 Patent").

PROCEDURAL BACKGROUND

In August 1992, Hewlett-Packard filed a complaint alleging trademark infringement in violation of the Lanham Act, 115 U.S.C. § 1051 *et seq.* Two days later, United States District Court Judge Fern M. Smith granted plaintiff's simultaneously filed application for an order directing the U.S. Marshall to seize and impound all reproductions, counterfeits or copies of [p]laintiff's federally registered "HEWLETT-PACKARD," "HP," and "DeskJet" trademarks and "hp" logo. August 21, 1993 Order, at 3. In the same Order, defendants were directed to show cause why a preliminary injunction should not issue enjoining defendants from infringing plaintiff's trademarks and "misrepresenting in any way to the public their affiliation, sponsorship or relationship to [p]laintiff and the nature and quality or source of origin of the good that they are advertising, promoting, offering for sale, selling, and/or distributing." *Id.* During the TRO hearing, Judge Smith made the following comments concerning Repeat-O-Type's activities:

> I have to say to the defendants, it's been along time since I've seen a more blatant, what I think,

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2. Plaintiff seeks to protect its federally registered "HEWLETT-PACKARD," "HP," "DeskJet," and "DeskWriter" names and trademarks and the "HP" logo (also a name and registered trademark and service mark of plaintiff).

> copying of somebody else's logo. . . . You have modified the product as far as I can tell. Whether you've modified it to make it better or worse, I don't know. But people, I think, are understandably very likely to be confused. If I were buying that, I would assume that it was authorized in some way by Hewlett-Packard, if not made by Hewlett-Packard.

Pending plaintiff's application for a preliminary injunction, the Court issued a broad TRO preventing the manufacture or disposal of any potentially infringing goods. The seizure authorized by the order took place on August 28, 1992.

On September 18, 1992, a hearing on the Order to Show Cause regarding the preliminary injunction was held before the Honorable Fern M. Smith. Judge Smith deferred ruling on the application for preliminary injunction and encouraged the parties to undergo further settlement negotiations. Judge Smith also dissolved her previous Order of Seizure and Impound as to items not bearing permanent, non-deletable Hewlett-Packard trademarks and logos. Order of September 29, 1992. The Court continued its TRO and Order of Seizure and Impound as to the remaining items.

The case was subsequently transferred to this Court. Defendants filed supplemental briefing on the pending motion for preliminary injunction. The Court granted plaintiff's motion for a preliminary injunction in an Order dated April 1, 1994.

DISCUSSION

THE STANDARD FOR SUMMARY JUDGMENT

Under Rule 56(c) of the Federal Rules of Civil Procedure, a district court may grant summary judgment when "the pleadings,

depositions, answers to interrogatories, and admissions on file, together with affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c).

Recognizing that summary judgment motions can contribute significantly to the resolution of litigation when there are no factual issues, the Supreme Court and the Ninth Circuit have established the following standards for consideration of such motions: "If the party moving for summary judgment meets its initial burden of identifying for the court those portions of the materials on file that it believes demonstrates the absence of any genuine issues of material fact," the burden of production then shifts so that "the nonmoving party must set forth, by affidavit or as otherwise provided in Rule 56, '*specific facts* showing that there is a genuine issue for trial.' " *T.W. Elec. Serv. , Inc. v. Pacific Elec. Contractors Ass'n,* 809 F.2d 626, 630 (9th Cir. 1987) (quoting Fed. R. Civ. P. 56(e) (emphasis added) and citing *Kaiser Cement Corp. v. Fischbach & Moore, Inc.,* 793 F.2d 1100, 1103-04 (9th Cir.), *cert. denied,* 107 S. Ct. 435 (1986) and *Celotex Corp. v. Catrett,* 106 S. Ct. 2548, 2553 (1986)). With respect to these specific facts offered by the non-moving party, the court does not make credibility determinations or weigh conflicting evidence, and is required to draw all inferences in a light most favorable to the non-moving party. *T.W. Elec. Serv.*, 809 F.2d at 630-31 (citing *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 106 S. Ct. 1348, 1356 (1986).

Rule 56(c) nevertheless requires this Court to enter summary judgment, "after adequate time for discovery and upon motion, against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex,*

106 S. Ct. at 2552. The mere existence of a scintilla of evidence in support of the nonmoving party's position is insufficient: "[T]here must be evidence on which the jury could reasonably find for the [non-moving party]." *Anderson v. Liberty Lobby, Inc.*, 106 S. Ct. 2505, 2512 (1986). This Court thus applies to either a defendant's or plaintiff's motion for summary judgment the same standard as for a motion for directed verdict: "[W]hether the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law." *Id.*

TRADEMARK CLAIMS

The Standard for Finding Trademark Infringement Under the Lanham Act

Trademark infringement is established when there is a likelihood of confusion, mistake, or deception among the public as to the source of the parties' goods and/or services or the existence of some sponsorship or affiliation between the parties. 15 U.S.C. § 1114(1). Hewlett-Packard bears the burden of proving by a preponderance of evidence that a likelihood of confusion exists. J. Thomas McCarthy, *McCarthy on Trademarks*, § 23.20[1], at 23-132 (3d ed. 1994) (citing *David Sherman Corp. v. Heublein, Inc.*, 340 F.2d 377 (8th Cir. 1965)). There are three elements that must be proven by the plaintiff in a trademark case: (1) ownership by the plaintiff of a valid trademark; (2) use of the mark in commerce by the defendant without the owner's consent; and (3) use of the mark by the defendant in a manner likely to cause confusion, mistake or deception.[3] The first two elements

3. Thus, unauthorized use of a trademark is not itself sufficient to constitute a violation; the use must be confusing or deceptive as well. Defendants argue that the court at the original hearing misunderstood the law of trademarks. "The (Cont'd)

are not at issue in the case. The question is whether or not the mark was used in a manner likely to cause confusion, mistake, or deception.

The Ninth Circuit has identified a number of factors as relevant to a determination of whether the defendant's use of another's registered mark is likely to cause confusion, mistake or deception. These factors are: (1) strength of the plaintiff's marks; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) type of goods and the degree of care likely to be exercised by the purchaser; and (7) defendant's intent in selecting the marks; and (8) likelihood of expansion of the product lines. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979). Every trademark case is unique, however, and must be decided on its own facts, so the relative significance of these factors varies from case to case. *Century 21 Real Estate Corp.*, 846 F.2d 1175, 1179 (9th Cir. 1988).

The three evidentiary methods for proving that a likelihood of confusion exists are: (1) survey evidence; (2) evidence of actual confusion; and/or (3) "argument based on an inference arising from a judicial comparison of the conflicting marks themselves and the context of their use in the marketplace." McCarthy, § 23.20[2], at 23-133.

(Cont'd)

court appeared to believe that a trademark was an inherent property right and that the owner of the trademark has a right to prohibit others from using that mark, in much the same manner as an owner of a copyright has the right to prohibit reproduction of the copyrighted material." This court disagrees with defendant's characterization. The court at the original hearing found likelihood of confusion as well as unauthorized use of the marks.

Appendix F

Analysis

Applying the undisputed facts to these factors, it is clear that a likelihood of confusion, mistake, or deception exists. A comparison of the conflict in the marks themselves and the context of their use in the marketplace establishes trademark infringement. *See* McCarthy, § 23.20[2], at 23-133.

It is undisputed that Repeat-O-Type uses Hewlett-Packard's logos on its products and that Repeat-O-Type packages its products in Hewlett-Packard boxes. Thus, the marks are "similar." The fact that the cartridge has been "modified" by Repeat-O-Type is only indicated in small lettering. In a certain percentage of the products, Repeat-O-Type's name is not even on the product flap. Defendants cite cases indicating that a product may mention the name of another product in its packaging. In *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), for example, the Supreme Court held that a manufacturer of compacts that used Coty's face powder was allowed to use the Coty name in its packaging. "When the mark is used in such a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo." *Id.* at 368. This reasoning may suggest that Repeat-O-Type should be allowed to mention on its packaging that its product is modified from an original Hewlett-Packard cartridge. Repeat-O-Type, however, has done much more than that. Repeat-O-Type has used Hewlett-Packard's own logo and has packaged its cartridge in a Hewlett-Packard box, thus easily misleading consumers into thinking it is a Hewlett-Packard product.

Furthermore, Hewlett-Packard's registered trademarks are very strong marks. As Repeat-O-Type's products can only be used with Hewlett-Packard's printers, there is also proximity of

Hewlett-Packard and Repeat-O-Type's goods. Thus, these factors support a finding of likelihood of confusion.

Hewlett-Packard has provided some evidence of "actual confusion." Hewlett-Packard says that although it does not track evidence of confusion by customers, the company has encountered confusion by customers who have telephoned and written letters to Hewlett-Packard thinking that Hewlett-Packard is the source of or sponsor of the Repeat-O-Type products. Hewlett-Packard has submitted a letter from a customer who believed that Repeat-O-Type's refill ink was an Hewlett-Packard product. On the other hand, Repeat-O-Type and Fred Keen have provided letters from consumers saying that they were not confused.

Evidence or lack of evidence of actual confusion is relevant, but is not determinative of whether there is a likelihood of confusion. *See, e.g., E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1292 (9th Cir. 1992). In this case, in which Hewlett-Packard was granted a TRO and preliminary injunction against Repeat-O-Type soon after Repeat-O-Type began selling its products, evidence of actual confusion is less likely to exist. Thus, this factor weighs less heavily than in many cases.

The marketing channels used by Repeat-O-Type are similar to those used by Hewlett-Packard, further contributing to a likelihood of confusion. Additionally, the cost of the print cartridges is small compared to the cost of the printer; this suggests that less care is put into the cartridge purchasing decision and that buyers will be confused by Repeat-O-Type's products. Finally, although Hewlett-Packard need not demonstrate that Repeat-O-Type intended to deceive the public for it to prevail, *see E. & J. Gallo Winery v. Gallo Cattle Co.*, intentional use of

Hewlett-Packard's mark suggests that Repeat-O-Type intended the public to believe that Hewlett-Packard manufactured, or at least authorized and approved, Repeat-O-Type's product.

The undisputed facts presented to the Court clearly establish that Hewlett-Packard has met its burden of proof on its claim that defendants have infringed Hewlett-Packard's federally registered trademarks. Therefore, Hewlett-Packard is entitled to summary judgment regarding defendants Repeat-O-Type and Fred Keen's liability on the trademarks claims.

The Remedy

Hewlett-Packard has asked for a jury trial, compensatory damages and punitive damages. Although liability has been established, the issue of damages remains to be resolved. Hewlett-Packard has also requested a permanent injunction. The scope of the injunction remains to be resolved.

PATENT CLAIMS

Introduction

In addition to trademark infringement, Hewlett-Packard claims that Repeat-O-Type has infringed its patents. As Hewlett-Packard would have it, "The single question of law presented by this motion is whether the modification of plaintiff Hewlett-Packard Company ("Hewlett-Packard") ink-jet cartridges by Repeat-O-Type ("ROT") is" (1) it is of worn or spent components, *and* (b) the modifications are to keep the cartridges in use for its life as intended by the patent owner; or (2) an impermissible reconstruction, and thus an infringement of Hewlett-Packard's patents." Hewlett-Packard argues that Repeat-O-Type modifies

Hewlett-Packard's product *before* there are any worn or spent parts; therefore, the modification cannot be permissible "repair" and so must be impermissible "reconstruction."

The Court does not agree with Hewlett-Packard's characterization of the issue. "Repair" versus "Reconstruction" is not a means of establishing infringement of patents. Rather, the doctrine of repair is an exception to an otherwise established patent infringement. In other words, Hewlett-Packard must first establish that a patent infringement exists before the question whether the product is a permissible repair is reached.

Repair Versus Reconstruction

A patent gives the owner of the patent the right to exclude others from making, selling, or using an item within the scope of that patent. As Hewlett-Packard concedes, a lawful purchaser of a product (which Repeat-O-Type is) has the right to use or resell the lawfully purchased cartridge. *See United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942). This basic principle is known as the "first sale doctrine." The "permissible repair" doctrine permits a purchaser to repair or replace an unpatented element of a patented combination to "preserve its fitness for use so far as may be affected by wear or breakage." *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 325, 336 (1909), *overruled on other grounds, Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 6611, 668 (1944).

Hewlett-Packard terms the "permissible repair" doctrine a limitation on a purchaser's ability to use or resell a product. In the Court's opinion, the doctrine instead provides an exception to the general ban or a purchaser's ability to make a product. That is, a purchaser can *use or resell* a product without it being a

violation of the creator's patent rights. However, a purchaser normally cannot *remake* the same product without it being a violation of the creator's patent rights. Courts have created a "permissible repair" exception to this principle, however. When a patent owner has a combination patent on a product which is composed of a number of unpatented elements, it is permissible for the purchaser or another to "fix" or "make" certain component parts without violating the patent owner's rights. For example, in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 345-46 (1961), the Court held that it did not violate a patent owner's rights for a defendant to provide replacement fabric for a convertible top.

In the instant case, Hewlett-Packard does not have a combination patent on its Stanley and Kukla cartridges — only on certain elements of the cartridges. Thus, by changing certain nonpatented elements of the cartridges, Repeat-O-Type is not making or remaking anything that Hewlett-Packard has a patent

> The law entitles the purchasers of a patented apparatus to repair and replace worn or broken parts, but replacement that amounts to a second creation of the patented entity is not permissible."

Lummus Industries, Inc. v. D.M. & E. Corp., 862 F.2d 267, 272 (quoting *Aro*, 365 U.S. at 345-46). Hewlett-Packard has not presented evidence that Repeat-O-Type has recreated anything that Hewlett-Packard has a patent on; in fact, what Hewlett Packard seems to be complaining about is that Repeat-O-Type is making an entirely new product, not that Repeat-O-Type is making a component that Hewlett-Paekard has a patent on.

Appendix F

The Scope of Hewlett-Packard's Patent Rights

For the above reasons, the Court does not find Hewlett-Packard's argument that the dispositive issue is "repair-versus-reconstruction" availing. As a purchaser, Repeat-O-Type cannot be liable for patent infringement for using or selling Hewlett-Packard's products. Therefore, Repeat-O-Type can only be liable for making a product that is patented by Hewlett-Packard. Hewlett-Packard has not established that Repeat-O-Type has made a product that Hewlett-Packard has a patent one. It is important to note that Hewlett-Packard's patents are not for the Stanley and Kukla cartridges themselves; they are for certain elements which are *in* the cartridges. Specifically, Hewlett-Packard claims that the Stanley and Kukla cartridges read on Hewlett-Packard's '811 patent and '294 patent, and that Repeat-O-Type's modifications infringe these patents.

Patent '811 is for a "thermal ink jet pen having a feedtube with improved sizing and operational with a minimum of depriming." The two claims for this patent are "in combination, an ink jet pen having an ink reservoir and an ink jet thin film printhead and a standpipe interconnecting said reservoir and said printhead and having an air accumulating section adjacent said reservoir, said printhead has an orifice plate therein with orifii openings . . ." and "a thermal ink jet pen including an ink reservoir therein and a thin film printhead interconnected to said reservoir by way of a standpipe . . ."

Components of the Stanley inkjet cartridge are covered by Hewlett-Packard Patent '811, claim 2. Contrary to Hewlett-Packard's assertion, however, replacing the ink in the ink reservoir does not constitute infringement, because ink is not a patented/material element of claim 2, and Hewlett-Packard does not have a

combination patent on the cartridge itself. In fact, ink does not even appear to be an "element" of claim 2.[4] Therefore, Repeat-O-Type's actions in replacing the ink in the Stanley inkjet cartridge do not constitute patent infringement. Hewlett-Packard cites no case for the proposition that changing a non-patented component that "relates to" a claimed element of a patented component constitutes impermissible "reconstruction."

Patent '294 is for a "thermal ink jet printhead assembly employing beam lead interconnect circuit." It contains three claims: "An ink jet printhead assembly adapted for insertion into a printhead carriage, said assembly including in combination: (a) printhead substrate . . . (b) a plurality of thin conductors disposed atop said substrate and electrically connected to a plurality of transducer elements therein, and (c) a beam lead interconnect circuit having a plurality of beam leads bonded, respectively, to said plurality of thin conductors . . ." (2) the assembly defined in claim 1 wherein said beam leads are resiliently extended away from said chosen surface of said header member . . . (3) An ink jet pen including in combination: (a) a pen body housing having an ink storage compartment therein and an ink flow port adjacent one surface thereof and further having outer surfaces which are contoured to mate with adjacent surfaces of a pen carriage member, (b) a thin film printhead . . . (c) a flexible electrical circuit member . . ." Ink is not an element of the patent.

Components of the Stanley and Kukla print cartridges are probably covered by claim 3 of Hewlett-Packard patent '294. Even if the same cartridges, if made by someone other than Hewlett-Packard without permission, would not literally infringe '294, they might well infringe under the Doctrine of Equivalents,

4. The Court does not accept HP's argument that a court should read into the claim that ink is an "implied" element of the claim.

provided that the cartridges work the same way to perform substantially the same function to achieve the same result. *See Jonsson v. Stanley Works,* 903 F.2d 812, 821 (Fed. 1990). However, even if various components of the cartridges are covered by the '294 patent, the cap is not a patented element of claim 3. Thus, Repeat-O-Type's breaking the seal of the cap and replacing the cap with shims so that cap could be removed and the cartridge refilled by the consumer, does not constitute impermissible "reconstruction."

For these reasons, Hewlett-Packard has not presented evidence sufficient to create a genuine issue of material fact that Repeat-O-Type has infringed its patents. Defendants Repeat-O-Type and Fred Keen are entitled to summary judgment on the patent claims.

CONCLUSION

For the above reasons, the Court grants plaintiff partial summary judgment on the issue of liability for the trademark claims. The Court grants defendants' motion for summary judgment on the patent claims.[5] Defendants' request for Rule 11 sanctions is denied. Plaintiff Hewlett-Packard is to submit a proposed form of injunction by February 24, 1995. Plaintiff is also to provide a copy of that proposal by February 24, 1995 to defendants. Defendants may submit comments on the proposal to the Court by March 10, 1995.

---

5. Because the Court grants defendants' motion for summary judgment on the patent claims, the Court denies plaintiff's motion for summary judgment on the patent claims.

Appendix F

IT IS SO ORDERED.

Dated February 1, 1995

s/ D. Lowell Jensen
D. Lowell Jensen
United States District Judge

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In The

Supreme Court of the United States

October Term, 1997

REPEAT-O-TYPE STENCIL,
MANUFACTURING CORPORATION,

Petitioner,

vs.

HEWLETT-PACKARD COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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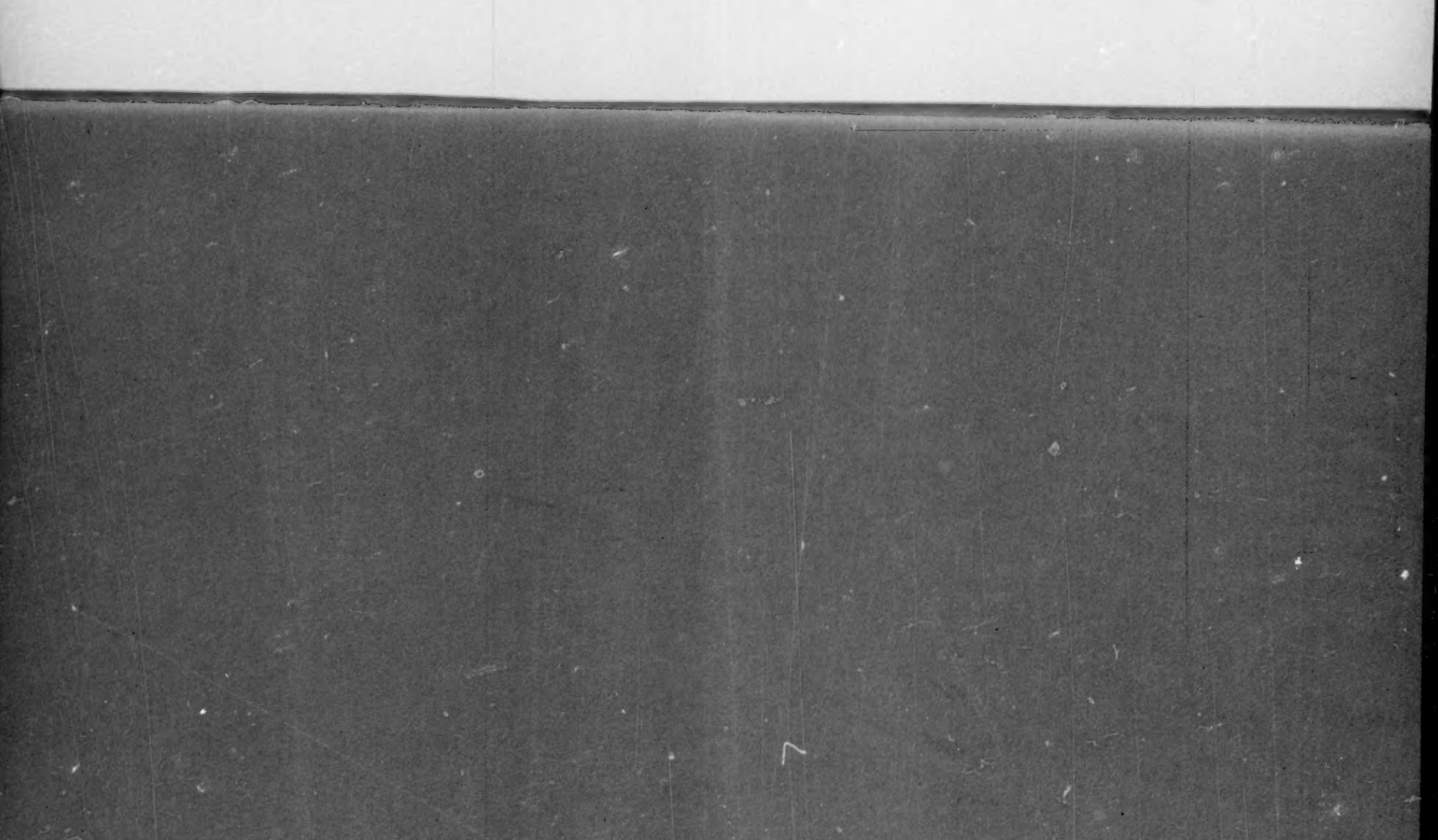

CORPORATE LISTING UNDER 29.6

Hewlett-Packard Company has no parent companies or subsidiaries or affiliates that have issued shares to the public.

TABLE OF CONTENTS

	Page
Corporate Listing Under 29.6	i
Table of Contents	ii
Table of Cited Authorities	iii
Statement of the Case	1
A. ROT's Initial Unsuccessful Attempt To Bring Its "Sham Litigation" Claim In The Underlying Northern District Action	1
B. ROT's Second Unsuccessful Attempt To Bring Its "Sham Litigation" Claim, This Time In The Central District of California	8
Reasons for Denying the Writ	10
I. ROT's Petition Presents No Issues That Would Benefit From Review By This Court	10
II. ROT's Allegation Of Sham Litigation Are Patently Meritless	11
III. ROT's Antitrust Claims Are Barred By The Doctrine Of Res Judicata	14
Conclusion	17

TABLE OF CITED AUTHORITIES

Page

Cases Cited:

Crockett v. Whisenhunt, 127 F.3d 678 (8th Cir. 1997) . 15

Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 81 S. Ct. 523, L. Ed. 2d 464 (1961) 11, 12

EFCO Corp. v. U.W. Marx, Inc., 124 F.3d 394 (2d Cir. 1997) 15

Herbert Judin v. United States, 110 F.3d 780 (Fed. Cir. 1997) 12

Hewlett-Packard Company v. Repeat-O-Type Stencil Manufacturing Corp., Inc., Civil Action No. C-92-3330 2

Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Co., 123 F.3d 1445 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998) 6, 7, 13

Huck v. Dawson, 106 F.3d 45 (3d Cir. 1997), *cert. denied*, 117 S. Ct. 2458, 139 L. Ed. 2d 197 (1997) 15

Integrated Techs. Ltd. v. Biochem Immunosystems, Inc., 2 F. Supp. 2d 97 (D. Mass. 1998) 15

Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 2d 1089 (1944) 13

Table of Cited Authorities

Page

Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 62 S. Ct. 402, 86 L. Ed. 2d 363 (1942) 13

Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993) 11

Refac Int'l. Ltd. v. Hitachi, Ltd., 19 U.S.P.Q. 2d (BNA) 1855 (C.D. Cal. 1991) 12

United Mine Workers v. Pennington, 381 U.S. 657, 85 S. Ct. 1585, 14 L. Ed. 2d 626 (1965) 11, 12

Rule Cited:

Supreme Court Rule 10 10

Supreme Court Rule 10(a) 10

Federal Rule of Civil Procedure 11 ..... 1, 4, 12

APPENDIX

Appendix A — Excerpts Of Order Of The United States District Court For The Northern District Of California Filed August 30, 1995 ..... 1a

Appendix B — Opinion Of The United States Court Of Appeals For The Federal Circuit Dated August 12, 1997 ..... 13a

Appendix C — Table Of Contents Of Petitioner's Ninth Circuit Brief 36a

Respondent Hewlett-Packard Company ("HP") respectfully requests that Petitioner Repeat-O-Type Stencil Manufacturing Corporation's ("ROT") petition for certiorari be denied.

STATEMENT OF THE CASE

Every judge that has considered ROT's unfounded claim that HP engaged in sham litigation has dismissed the accusation out of hand — sometimes more than once. The district court judge in the underlying lawsuit about which ROT complains denied ROT's request for Rule 11 sanctions and denied, on futility grounds, ROT's subsequent motion to amend its pleadings to add antitrust claims based on sham litigation. The district court judge in the present action (which ROT filed after losing its motion to amend in the underlying action) dismissed the case. A unanimous panel of the Ninth Circuit affirmed the dismissal in a ten-paragraph, unpublished opinion. The full court denied ROT's request for en banc review. In addition, the Federal Circuit has carefully reviewed the substance of HP's patent claims against ROT — the supposedly "sham" allegations — and, though it ruled against HP on the merits, made clear that the patent issues in this case are close. ROT's petition for certiorari should be denied because: (a) it presents no issue worthy of review; (b) its legal assertions are plainly meritless; and (c) ROT is precluded by the doctrine of res judicata from asserting the merits of its baseless claims before this Court.

A. ROT's Initial Unsuccessful Attempt To Bring Its "Sham Litigation" Claim In The Underlying Northern District Action

The underlying lawsuit that ROT wrongfully attempts to label a "sham" began as a direct result of ROT's counterfeiting of HP's trademark rights. HP filed a complaint against ROT on

August 19, 1992, in the Northern District of California (the "Northern District") in an action entitled *Hewlett-Packard Company v. Repeat-O-Type Stencil Manufacturing Corp., Inc.*, Civil Action No. C-92-3330 (the "Northern District Action"). (SER at 10.)[1] The Northern District Action is *not* the case in which ROT currently seeks review; by its petition, ROT seeks review with respect to the second case it later filed, as described in Section B, below.

The Northern District Action involved ROT's infringing activity in selling HP ink-jet cartridges, which ROT had modified, by prominently displaying HP's registered trademarks on its packaging. ROT sold the modified cartridges in the *original* HP box, and displayed the HP box through a plastic window in its packaging, to give consumers the impression that they were buying an original HP cartridge. Even worse, ROT removed the original cartridge from the original box by unsealing the glue strip on one side of the box, while leaving intact the "tear strip" that a consumer would normally use to tear open the box. ROT then placed the modified cartridge back into the original box and reglued the box. Through this technique, ROT deceived consumers into believing that they were buying an original HP cartridge in an original, unopened HP box.

Two days after HP filed the Northern District Action against ROT, the district court judge issued an order for seizure and impound and a temporary restraining order against ROT. In the hearing early on in the case, the district court judge made the following observations of ROT's infringing activities:

---

1. HP's response to ROT's certiorari petition makes reference to the Excerpts of Record ("ER") and the Supplemental Excerpts of Record ("SER") filed by the parties in the Ninth Circuit, as well as to ROT's Appendix to its certiorari petition and HP's Appendix to the current response.

> I have to say to the defendants, *it's been a long time since I've seen a more blatant, what I think, copying of somebody else's logo*. I don't quite understand why the defendants feel that it's perfectly alright to take someone else's logo, put it on their property without any authorization and then be surprised or outraged when the owners of the logo get upset . . . The fact that you're a small company doesn't mean you can just go around and take somebody else's logo and plop it on your products and use it any way you want.

(SER at 19.) Eventually, the Northern District granted summary judgment against ROT on the trademark claims and, after a jury trial, found that ROT had committed trademark counterfeiting and awarded HP $255,000 in compensatory damages, $40,000 in punitive damages against ROT, $60,000 in punitive damages against ROT's principal shareholder, and $1,309,995 in attorneys' fees. (Northern District Action Judgment, filed April 20, 1998.)

Because the product that ROT was selling in its misleading packaging was nothing more than a modified version of HP's own cartridges, the product unsurprisingly fell under the terms of numerous HP patents. Accordingly, early in the Northern District Action, HP filed a First Amended and Supplemental Complaint which added allegations that ROT's modifications to HP ink-jet cartridges infringed several of HP's patents on ink-jet cartridges under the "impermissible reconstruction" doctrine of patent infringement. (SER at 10, 70-103.) The question presented by HP's patent complaint was a straightforward question of patent law: did ROT's purchase of the HP product carry with it an implied license under the patent law to modify it and resell it; or did ROT's modification constitute impermissible "reconstruction" such that ROT's sale

of the modified product was the sale of a new product that infringed HP's patents. A year after filing its patent claims HP analyzed some ink-jet ink that ROT was selling and discovered that ROT's ink infringed an HP patent on an improved ink formulation (the "Ink Patent"). That discovery caused HP to file a Second Amended and Supplemental Complaint in the Northern District Action, which contained a new infringement claim on the specific HP Ink Patent. (SER at 10, 105-39.)

When the underlying action was approximately two years old, both HP and ROT brought summary judgment motions on HP's patent claims (and on the trademark claims). Because the central issue to HP's patent case was the same for all HP's asserted patents except the Ink Patent, HP based both its summary judgment motion and it opposition to ROT's summary judgment motion on two exemplary patents of the eleven that were based on, and stood or fell together on, the impermissible reconstruction doctrine of patent law. (ER Vol. II, Tab 11.) HP also explained in Section II.D of its brief opposing ROT's Summary Judgment Motion (filed November 17, 1994) how ROT's ink infringed HP's Ink Patent. While the Northern District granted summary judgment in favor of HP on the trademark claim (leaving only the issue of counterfeiting and damages for a jury trial), the court ruled against HP on the patent claims. (ER Vol. II, Tab 12.)

In its motion for summary judgment, ROT requested Rule 11 sanctions based on the false allegation that HP brought the patent infringement claims knowing that there was no basis for bringing them. The Northern District denied ROT's request for Rule 11 sanctions. (ROT Appendix F at 53a.) On November 16, 1994, ROT sought leave from the Northern District to file counterclaims against HP for the very same causes of action at issue in the current petition. Specifically, ROT's proposed claims included federal (and state) antitrust claims based on

the false theory that HP had filed sham patent claims against ROT in the Northern District Action. Following the Northern District's order granting ROT summary judgment on HP's patent claims, ROT renewed its request for leave to file counterclaims, adding new proposed counterclaims for malicious prosecution and vexatious litigation. (SER at 11, 178-87.) On August 30, 1995, the Northern District denied ROT's motion to file its counterclaims, *specifically* holding that leave to file the omitted counterclaims would be futile because each of the claims would be subject to a motion to dismiss. (HP Appendix A.) The Northern District, the court most familiar with the underlying patent claims, ruled, among other reasons for denying leave to amend, that ROT's proposed amendment would be futile as a matter of law:

> It cannot be reasonably contended that this litigation is a "sham." [HP] has prevailed on its trademark, unfair competition , and false designation claims . . . [¶] Even looking at the patent claims alone, it cannot be said that institution of the proceedings was "objectively baseless" or "lacking in probable cause" . . . Although [HP's] theory that [ROT's] modification of its patent was ultimately unavailing, it was "warranted by existing law" or at least based on an objectively "good faith argument for the extension, modification, or reversal of existing law" . . . In fact, the Court implicitly rejected Repeat-O-Type's arguments by denying Repeat-O-Type's request for Rule 11 Sanctions.

(HP Appendix A at 9a and 10a.)

HP appealed the Northern District's summary judgment against it on the patent claims to the Federal Circuit. Thus, the Federal Circuit reviewed the merits of the very claims that ROT

asserts to constitute "sham litigation." The Federal Circuit's lengthy, published opinion carefully analyzes the merits of HP's impermissible reconstruction argument and makes very clear that those claims were *not* objectively baseless, and hence cannot be the basis for an alleged violation of the antitrust laws. (The Federal Circuit opinion, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998) is attached as HP Appendix B.)

The Federal Circuit's analysis reveals that the patent claims asserted by HP present a close question. Contrary to ROT's argument here that the patents at issue had nothing to do with the ROT products, the Federal Circuit explained:

> HP owns numerous patents on various facets of ink jet printing technology. . . . Twelve of these patents are involved in this suit. Of the twelve asserted patents, two of them, U.S. Patents 4,827,294 and 4,931,811, are directed to ink jet cartridges . . . and a third, U.S. Patent 5,108,503, is directed to a specific ink formulation. The remaining patents are directed to other aspects of ink jet printing technology and are directed to specific components within ink jet cartridges.

123 F.3d at 1447; HP Appendix B at 14a-15a. The Federal Circuit then went on to describe the two representative patents in detail. *Id.* at 1447-1448; HP Appendix B at 15a-18a. The Federal Circuit in fact ruled in HP's favor on claim interpretation, a ruling that allows the patents to read on ROT's products:

> We agree with HP that the [district] court misconstrued the claims. They relate to ink jet

> cartridges, not to specific components within the cartridges. The preamble of each claim clearly states that it relates to an "ink jet pen including" the recited limitations . . . Thus, claim 3 of the '294 patent, for example, reads on ink jet pens that contain the recited pen body housing, thin film printhead, and the flexible electrical circuit member.

Id. at 1451; HP Appendix B at 24a. The Federal Circuit then turned to the issue of whether ROT's modification of HP's inkjet cartridges constituted a permissible repair or an impermissible reconstruction of those cartridges. The court's eight-page analysis of this issue also makes clear that HP's assertion of the repair/reconstruction doctrine, while ultimately unsuccessful, was in no way objectively baseless. Indeed, the court found that ROT's modification fell somewhere in between repair and reconstruction:

> *HP correctly states that ROT's modification is not conventional repair.* The caps on the purchased cartridges are not broken or defective. On the other hand, neither is ROT's modification a "reconstruction" of the patented combination . . . While there is no bright-line test for determining whether a modification is a "reconstruction" . . . we agree with the district court that ROT has not reconstructed the cartridges. ROT's modification of the caps of HP's cartridges is *more akin to permissible "repair" than to impermissible "reconstruction."*

Id. at 1452; HP Appendix B at 27a (emphasis added). On June 17, 1997, ROT voluntarily withdrew (with HP's permission) its request that the Federal Circuit award sanctions against HP for filing an allegedly frivolous appeal. ROT's abandonment of its request for sanctions is further evidence that HP's patent infringement case was *not* objectively baseless.

As explained above, while it did not ultimately prevail on the patent claims, HP prevailed at trial in its trademark claims against ROT. On April 27, 1998, ROT filed an appeal from the judgment against it in the Northern District Action; on or about August 11, 1998 ROT filed its appellate brief. While ROT appealed on fourteen separate issues, it chose *not* to appeal the Northern District's denial of ROT's motion to amend to add the identical claims of "sham litigation" at issue in the current certiorari petition. (A copy of the table of contents of ROT's appellate brief in the Northern District Action is attached as HP Appendix C.) Accordingly, the Northern District Action ruling on that point has become final.

B. ROT's Second Unsuccessful Attempt To Bring Its "Sham Litigation" Claim, This Time In The Central District of California

ROT's current certiorari petition involves ROT's second attempt to assert its meritless "sham litigation" claims. After the Northern District ruled that ROT's "sham litigation" claims against HP were futile, ROT simply filed the same claims in the Central District of California (the "Central District"), hoping it would fare better in Los Angeles than it had fared in Oakland. ROT filed the complaint in this action together with a motion for summary judgment. (SER at 12-13.) HP filed a motion to dismiss ROT's complaint, which the district court judge heard at the same time he heard ROT's summary judgment motion.

The Central District dismissed ROT's "sham litigation" claims. (ROT Appendix B.) In doing so, the court gave lengthy consideration to the Northern District's orders in the underlying action, noting that the Northern District had specifically ruled hat "it cannot be reasonably contended that this litigation is a 'sham.' " (ROT Appendix B at 19a.) Finding that the claims alleged in the complaint were "substantially unchanged and

based upon the same allegations" as the proposed counterclaims rejected in the Northern District Action, the district court judge held that "[f]or the same reasons" as those set forth in the Northern District's prior rulings, HP's patent infringement suit against ROT "was not objectively baseless, did not constitute sham litigation" and therefore, that ROT failed to state a claim against HP for antitrust violations under either federal or California law. (ROT Appendix B at 20a.)

The Ninth Circuit affirmed the district court's dismissal in an unpublished opinion just ten paragraphs long. (ROT Appendix A.) The Ninth Circuit opinion (by Judges Browning, Fletcher and Kozinski) was straightforward:

> We note that HP discussed its infringement theory with reference to several representative patent claims because the dispositive issue on eleven of them (excluding the ink patent) was the same: "whether ROT's modifications to unused HP ink-jet cartridges constituted an impermissible reconstruction of the cartridges." Nor do we find that a claims chart is a prerequisite for a suit . . . [¶] Although ultimately unsuccessful, HP's claims based on the '294 and '811 patents were not objectively baseless . . . [¶] Overall, HP's patent claims, while unavailing, are not objectively baseless nor do they demonstrate grave abuse, therefore, the judgment of the district court is affirmed.

ROT now seeks review of this unexceptionable opinion.

REASONS FOR DENYING THE WRIT

I.

ROT'S PETITION PRESENTS NO ISSUES THAT WOULD BENEFIT FROM REVIEW BY THIS COURT

"A petition for writ of certiorari will be granted only for compelling reasons," Supreme Court Rule 10, and ROT's petition provides none. Putting aside for the moment that ROT's claims are patently meritless (Point II, below) and that they are barred by the doctrine of res judicata (Point III, below), ROT has pointed to no need for review by this Court, much less a compelling need. This case involves no split of authority among the circuits, no important undecided issue of federal law, no need for exercise of this Court's supervisory powers. *See* Supreme Court Rule 10(a). In an unpublished opinion, the circuit court below applied well-established law to the particular facts of the case before it. ROT has petitioned for certiorari solely because it is dissatisfied with the outcome of its appeal, not because this case presents any important questions.

The reason that the district court dismissed ROT's unfounded "sham litigation" claims, and the reason the Ninth Circuit correctly affirmed, turns on the particular facts of this case, not on any broad question of law. This case involves questions such as the exact scope of the patents at issue, the significance of preparing, or not preparing, a document called a "claims chart" in connection with patent litigation, what HP's discovery responses did and did not concede, and whether three separate courts were incorrect in holding that HP's repair/reconstruction argument was not objectively baseless. No question of law, important or trivial, is implicated. This case is not the stuff of which Supreme Court decisions are made.

II.

ROT'S ALLEGATION OF SHAM LITIGATION ARE PATENTLY MERITLESS

ROT's petition should also be rejected because ROT's case is plainly without merit. Under the *Noerr-Pennington* doctrine, persons who seek redress through administrative agencies and the courts are immune from antitrust liability for seeking such redress. *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S. Ct. 523, L. Ed. 2d 464 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657, 85 S. Ct. 1585, 14 L. Ed. 2d 626 (1965). One exception to this antitrust immunity is for so-called "sham" litigation. *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993). This Court has defined a two-step test to determine "sham" litigation. First, a court must determine whether the suit is "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Id.* at 60. "Only if the challenged litigation is objectively meritless may the court examine a litigant's subjective motivation." *Id.*

The Ninth Circuit correctly applied these straightforward principles to the facts of this case. (ROT Appendix A.) To support its "sham litigation" claim, HP alleged only that HP asserted just three patents, not all twelve patents, in its opposition to ROT's patent summary judgment motion, and that HP and its attorneys had not "prepared a claim chart" prior to filing suit. (ROT Appendix D at 28a-29a.) These allegations do not come close to making out a sham litigation case, and are easily refuted by reference to the actual files of the Northern District Action (which can be judicially noticed). First, as to all but one of the patents asserted by HP (the Ink Patent), the dispositive issue was exactly the same: whether ROT's

modifications to unused HP ink-jet cartridges constituted an impermissible reconstruction of the cartridges (and thus an infringement of HP's patents) or a permissible repair of those cartridges. Therefore, when HP both moved for and opposed summary judgment, it selected two exemplary patents (Nos. 4,827,294 and 4,931,811, the patents discussed in the Federal Circuit opinion) for presenting the impermissible reconstruction theory of infringement. The mere fact that HP chose to concentrate on a few representative patents — rather than burdening the district court with a discussion of all eleven patents, which in any event stood or fell together — hardly takes HP's lawsuit outside the protections of *Noerr-Pennington*.

Second, as the Ninth Circuit noted, there is no requirement to prepare a claims chart prior to filing suit.[2] This is particularly true in the current case, given that HP was intimately familiar with the accused product, which consisted of modified versions of HP's own product. All that is required is an analysis of the accused product and the underlying patent, and that is precisely what HP did, as evidenced by the analysis of Patent Nos. 4,827,294 and 4,931,811 contained in HP's own motion for partial summary judgment. (SER at 11-12; *see* ER Vol. II, Tab 11.)[3] Further, HP also analyzed the Ink Patent, as the record

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2. Nothing in *Herbert Judin v. United States*, 110 F.3d 780 (Fed. Cir. 1997) or *Refac Int'l. Ltd. v. Hitachi, Ltd.*, 19 U.S.P.Q. 2d (BNA) 1855 (C.D. Cal. 1991), relied upon by ROT, remotely holds to the contrary. Those cases stand for the unexceptionable proposition that where no attempt is made to determine whether key claim limitations are present in the accused device, and those limitations are in fact missing, Rule 11 sanctions are appropriate.

3. Apparently recognizing that the Ninth Circuit was correct that there is no claims-chart requirement, ROT now claims that what it meant all along was that no claims analysis had been done, and it faults the Ninth Circuit for supposedly not realizing this. But ROT argued to the Ninth Circuit only

(Cont'd)

below makes clear, as HP described in its opposition to ROT's summary judgment motion, and as the Ninth Circuit noted. (SER at 12; ROT Appendix A at 5a.)

The fact that HP's patent claims were not objectively baseless can be shown not only by the district court opinion in the Northern District Action — written by the judge most familiar with the underlying dispute — but by the Federal Circuit's careful, published opinion considering the patent issues raised by HP. The Federal Circuit concluded that the claims of the representative HP patents did in fact relate to the accused ROT-modified cartridges. 121 F.3d at 1447-1448; HP Appendix B at 14a-15a, 22a-24a. The Federal Circuit also carefully weighed whether the modification was permissible repair or impermissible reconstruction and concluded that, while there was no bright line rule, it was more "akin" to permissible repair. *Id.* at 1552; HP Appendix B at 27a. In short, HP's patent claims against ROT were a close case: they were certainly not "objectively baseless." ROT itself recognized this by withdrawing its claims for sanctions in the Federal Circuit with respect to these claims.

Finally, ROT's claim about HP's patent claims violating *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 62 S. Ct. 402, 86 L. Ed. 2d 363 (1942) and *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 2d 1089 (1944) is extremely difficult to understand. There

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(Cont'd)

that HP failed to prepare a claims chart. (ROT's Ninth Circuit Brief at 19.) Further, the charge that HP performed no claims analysis is demonstrably false, as the record here makes clear. (SER at 11-12.) Importantly, in its complaint, ROT alleged only that HP had failed to prepare a claims chart — not that it failed to analyze the patents and the accused product. (ROT Appendix D at 28a.) ROT's newfound argument is not only demonstrably untrue, but it forms no part of this case.

was not even an allegation that HP improperly tied the sale of its patented ink-jet cartridges to the sale of any unpatented ink. As explained above, the basis for HP's assertion of the '811 patent was ROT's modification of unused HP ink-jet cartridges (which, HP maintained, is an impermissible reconstruction of a patented article) — not ROT's sale of refill ink. Indeed, HP has not sued ROT or any other refill ink manufacturer for merely selling ink for refilling HP cartridges, provided that such ink does not infringe any of HP's patents on ink.

Unlike HP's patent claims themselves, ROT's sham litigation antitrust claims are plainly and simply without merit. The district court correctly dismissed them, and the Ninth Circuit correctly affirmed the dismissal.

III.

ROT'S ANTITRUST CLAIMS ARE BARRED BY THE DOCTRINE OF RES JUDICATA

This Court should deny review for one additional reason: this Court would not in any event reach the merits of ROT's antitrust claims because they are barred by res judicata. While this was not a basis of the Ninth Circuit's opinion, the problem would prevent the Court from considering the issues ROT purports to raise.

ROT sought to amend its pleadings in the underlying action in the Northern District of California to add the very claims at issue here, and the Court denied ROT's request *on futility grounds*. (HP Appendix A.) ROT failed to appeal that order. (HP Appendix C.)

> Where a plaintiff's motion to amend its complaint in the first action is denied, and plaintiff fails to

> appeal the denial, res judicata applies to the claims sought to be added in the proposed amended complaint.

EFCO Corp. v. U.W. Marx, Inc., 124 F.3d 394, 399-400 (2d Cir. 1997). *See also Crockett v. Whisenhunt*, 127 F.3d 678, 683 (8th Cir. 1997); *Huck v. Dawson*, 106 F.3d 45, 49-50 (3d Cir. 1997), *cert. denied*, 117 S. Ct. 2458, 139 L. Ed. 2d 197 (1997). This rule applies even to claims which are not "transanctionally related" to the other claims in the first lawsuit, so long as the first court denied leave to amend based on the merits of the claim. *Integrated Techs. Ltd. v. Biochem Immunosystems, Inc.*, 2 F. Supp. 2d 97, 101-102, 103 (D. Mass. 1998). *See also Crockett*, 127 F.3d at 682-683 (court denied party's motion to amend to add "fraud on the court" claim; party's later attempt to file second lawsuit asserting same claim barred by res judicata). The rule applies even where, as here, the party asserting the claim attempts to file a second lawsuit before the first lawsuit becomes final; so long as the judge's ruling in denying the amendment was based on futility, the timing of plaintiff's second suit does not matter:

> [P]laintiff has had one adjudication on the merits of the very claim that he attempts to assert in the second complaint. That single adjudication on the merits is all that he is entitled to, both as a matter of justice and under the classic formulation of the doctrine of claim preclusion. He may appeal the denial of his motion to amend, but he may not litigate his claim in a second proceeding.

Id. at 104.

ROT chose not to appeal the denial of its proposed claims in the Northern District Action; it cannot now argue them before

this Court. Application of the rule that failure to appeal a denial of a motion to amend bars the assertion of the claims in a later lawsuit makes particular sense in this case. First, the district court judge in the underlying Northern District Action was in the best position to rule on the merits of ROT's claim, given his familiarity with HP's conduct in, and all issues regarding, the underlying case. Second, the district court judge in the current action called ROT's tactic in filing a second action an attempt to "reargue their same position" before a second judge. (ROT Appendix B at 20a.) Third, in the briefing below, HP explicitly warned ROT of the preclusive effect of the early rulings, stating that the judge's decisions in the Northern District Action denying Rule 11 sanctions against HP and denying ROT's motion to amend the counterclaim "will have preclusive effect once HP's trademark damages are determined and final judgment is entered in the underlying case." (HP's Supplemental Brief at 3, filed in the Ninth Circuit on or about August 30, 1997.) Yet ROT chose not to challenge those rulings on appeal. For the additional reason that a court may no longer reach the merits of ROT's baseless antitrust claims, certiorari should be denied.

CONCLUSION

The three courts that have rejected ROT's meritless claims were correct. ROT has raised no question requiring review. For all the reasons stated above, HP respectfully requests that this Court deny ROT's petition for certiorari.

Respectfully submitted,

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APPENDIX

APPENDIX A — EXCERPTS OF ORDER OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA FILED AUGUST 30, 1995

No. C-92-3330 DLJ

HEWLETT-PACKARD COMPANY,

Plaintiff,

v.

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION and FRED KEEN,

Defendants.

ORDER

On May 31, 1995, the Court heard arguments on (1) defendant Repeat-O-Type's motion for leave to file counterclaims; (2) defendant Fred Keen's motion for reconsideration of the Court's grant of summary judgment against him on the trademark claims (and motion for partial summary judgment in his favor); (3) plaintiff Hewlett-Packard Company's motion for partial summary judgment against defendants Repeat-O-Type and Fred Keen on its unfair competition, false designation, and false advertising claims; and (4) plaintiff's motion to modify the permanent injunction. Mark L. Pettinari of Townsend and Townsend Khourie and Crew and Bruce D. Kuyper of Irell & Manella appeared on behalf of plaintiff. Edward F. O'Connor of Poms, Smith, Lande & Rose appeared on behalf of defendant Repeat-O-Type. David A. Gauntlett of Callahan & Gauntlett appeared on behalf of

defendant Fred Keen. Having considered the arguments of counsel, the papers submitted, the applicable law, and the record herein, the Court hereby (1) denies Repeat-O-Type's motion for leave to file counterclaims; (2) grants Keen's motion for reconsideration; (3) grants plaintiff partial summary judgment against Repeat-O-Type on the unfair competition and false designation claims and denies summary judgment on the false advertising claim against Repeat-O-Type and all claims against Keen; and (4) grants in part and denies in part plaintiff's motion to modify the permanent injunction.

BACKGROUND

Plaintiff HP originally filed this action complaining of trademark infringement, false designation, description and representation, and unfair competition and deceptive trade practices. In its Third Amended Complaint filed July 21, 1994, HP added Fred Keen, president of ROT as an additional defendant, and has added patent claims against the defendants.

Plaintiff's claims arise from the sale by ROT of 2 modified HP print cartridges. ROT would purchase two types of HP inkjet cartridges from authorized HP distributors. ROT has converted the HP 51608A inkjet print cartridge (the "Stanley" cartridge) to contain colored ink rather than the original black ink. ROT has also converted the HP 61625A inkjet print cartridge (the "Kukla" cartridge) by breaking the seal of the cap and replacing the cap with shims so that the cap can be removed and the cartridge refilled by the consumer. ROT put the modified cartridges back in the original HP boxes. The original HP boxes, now housing the modified cartridges, along with a supply of refill ink supplied by HP, were put inside an outer package with a see-through plastic "window" and sold by ROT as refill

kits. HP claimed that ROT's modifications infringe HP's patent rights, and that ROT's use of HP's trademarks creates *confusion as* to the product's source.[1]

In August 1992, HP filed a complaint alleging trademark infringement in violation of the Lanham Act, 115 U.S.C. § 1051 *et seq.* Two days later, United States District Court Judge Fern M. Smith granted plaintiff's simultaneously filed application for an order directing the U.S. Marshall to seize and impound all reproductions, counterfeits or copies of [p]laintiff's federally registered "HEWLETT-PACKARD," "HP," and "DeskJet" trademarks and "hp" logo. August 21, 1993 Order, at 3. In the same Order, defendants were directed to show cause why a preliminary injunction should not issue enjoining defendants from infringing plaintiff's trademarks and "misrepresenting in any way to the public their affiliation, sponsorship or relationship to [p]laintiff and the nature and quality or source of origin of the good that they are advertising, promoting, offering for sale, selling, and/or distributing." *Id.* Pending plaintiff's application for a preliminary injunction, the Court issued a broad temporary restraining order preventing the manufacture or disposal of any potentially infringing goods. The seizure authorized by the Order took place on August 28, 1992.

On September 18, 1992, a hearing on the order to show cause re: the preliminary injunction was held before the Honorable Fern M. Smith. Judge Smith deferred ruling on the application for preliminary injunction and encouraged the

---

1. Plaintiff seeks to protect its federally registered "HEWLETT-PACKARD," "HP," "DeskJet," and "DeskWriter" names and trademarks and the "hp" logo (also a name and registered trademark and service mark of plaintiff).

parties to undergo further settlement negotiations. Judge Smith also dissolved her previous Order of Seizure and Impound as to items not bearing permanent, non-deletable HP trademarks and logs. Order of September 29, 1992. The Court continued its TRO and order of Seizure and Impound as to the remaining items.

The case was subsequently transferred to this Court. Defendants filed supplemental briefing on the pending motion for preliminary injunction. The Court granted plaintiff's motion for a preliminary injunction in an Order dated April 1, 1994. Repeat-O-Type did not seek an appeal of this ruling.

In an Order dated February 7, 1995, the Court granted plaintiff summary judgment on the trademark claims and granted defendants summary judgment on the patent claims. Parties submitted proposed forms of injunctions. On March 8, 1995, the Court entered a permanent injunction.

Now before the Court are (1) defendant Repeat-O-Type's motion for leave to file counterclaims; (2) defendant Fred Keen's motion for reconsideration of the Court's grant of summary judgment against him on the trademark claims (and motion for partial summary judgment in his favor); (3) plaintiff's motion for partial summary judgment against defendants Repeat-O-Type and Fred Keen on its unfair competition, false designation, and false advertising claims; and (4) plaintiff's motion to modify permanent injunction.

Appendix A

DISCUSSION

I. *Defendant Repeat-O-Type's Motion for Leave to File Counterclaims*

Defendant Repeat-O-Type seeks to add nine counterclaims against plaintiff Hewlett-Packard: (1) unfair competition under California Code § 17200 *et seq.*; (2) intentional interference with a prospective business advantage under California law; (3) negligent interference with a prospective business advantage under California law; (4) antitrust activities in violation of the Sherman Act, 15 U.S.C. § 2 and the Clayton Act, 15 U.S.C. § 14; (5) abuse of process in violation of California law; (6) violation of California Business and Professions Code §§ 16700-60 (combination in restraint of trade); (7) unlawful seizure under 15 U.S.C. § 116(d)(11); (8) unlawful seizure under California Business and Professions Code § 14340(c); and (9) trade libel under California Law. At oral argument, defendant stated that it was withdrawing its request to add a ninth claim for malicious prosecution in violation of California law and a tenth claim for vexatious litigation in violation of 28 U.S.C. 1927.

The basis of Repeat-O-Type's proposed counterclaims is Hewlett-Packard's prosecution of the underlying suit against Repeat-O-Type. Repeat-O-Type also claims that Hewlett-Packard has made disparaging comments about its competitors' products.

Defendants oppose plaintiff's motion on the grounds of undue delay, prejudice, and futility of amendment.

Appendix A

A. *Legal Standard*

Rule 13(f) of the Federal Rules of Civil Procedure governs the situation where, as here, a party omits a counterclaim and later seeks leave to assert the tardy counterclaim. Rule 13(f) provides as follows:

> (f) **omitted Counterclaim.** When a pleader fails to set up a counterclaim through oversight, inadvertence, or excusable neglect, or when justice requires, the pleader may by leave of court set up the counterclaim by amendment.

The decision whether to permit an untimely counterclaim rests within the discretion of the district court. *See Ralston Purina Co. v. Bertie*, 541 F.2d 1363, 1367 (9th Cir. 1976).

1. *Delay*

Defendant's proposed counterclaims are subject to disallowance solely on the basis of delay. *See, e.g., Ralston-Purina Co. v. Bertie*, 541 F.2d 1363, 1367 (9th Cir. 1976) (upholding district court's refusal to grant leave to add counterclaim where movant failed to offer "any reasonable explanation" of a delay of six months after filing of the answer to the complaint before seeking leave to add the counterclaim).

Repeat-O-Type has made not made a sufficient showing that its failure to file the proposed counterclaims over the last 2 1/2 years was due to oversight, inadvertence, or excusable neglect. Defendant claims that it only recently became aware of the facts underlying its claims, but plaintiff's allegations and the history of the litigation belie this assertion.

Appendix A

As the basis for its counterclaims, Repeat-O-Type argues that the seizure order issued by Judge Smith on August 21, 1992 was without merit. There is no excuse for Repeat-O-Type's waiting over two years to file its counterclaims challenging the bases for this action.

Repeat-O-Type further argues that the patent claims, first filed in the First Amended Complaint on November 2, 1992, are without merit and were filed to harass Repeat-O-Type. Repeat-O-Type claims that it had not been represented by federally registered patent attorneys before September 6, 1994, but since the patent claims were filed almost two years earlier, Repeat-O-Type's failure to timely obtain patent counsel does not constitute excusable delay. Neither is Repeat-O-Type's contention that it only recently realized that Hewlett-Packard had not done a claims analysis a sufficient explanation. Repeat-O-Type claims that Hewlett-Packard has made false and damaging statements against its competitors. Although Repeat-O-Type does not explicitly allege the time frame for these allegations, it appears that the alleged statements have been occurring over a lengthy time period, and there is no justification for the delay.

2. *Prejudice*

Repeat-O-Type concedes that its counterclaims would insert substantial new issues into the litigation, but contends that the counterclaims would not raise substantial new facts or require the presentation of substantial new evidence. Repeat-O-Type notes that it currently asserts antitrust violations by Hewlett-Packard as a defense to Hewlett-Packard's patent claims, and argues that adding an antitrust violation by Hewlett-Packard as a counterclaim would not broaden the

issues, facts, or evidence to be presented. Since the Court has granted summary judgment in favor of defendants on the patent claims, the antitrust claims are no longer in the lawsuit as defenses to those claims. Thus, adding an antitrust claim would significantly broaden the issues, evidence, and discovery to be conducted.

At this point, a substantial amount of discovery has already been conducted. The Court has granted summary judgment on the central issues of this case, resulting in the elimination of many of the issues for trial. Permitting Repeat-O-Type to assert nine disparate counterclaims would substantially broaden the scope of the litigation and prejudice plaintiff.

3. *Futility*

Hewlett-Packard argues that all of Repeat-O-Type's proposed counterclaims are without merit, and therefore leave to amend would be futile. Although Rule 13((f) does not recite futility of allowing the omitted counterclaim as a factor to consider, courts may apply the futility factor that is considered in connection with motions to amend the pleadings under Rule 15(a) when considering whether to permit omitted counterclaims. *See, e.g., Galan v. Gecrenheimer,* 1992 U.S. Dist. LEXIS 15708, *6 (E.D. La. Oct. 14, 1992), *aff'd,* 996 F.2d 305 (5th Cir.), *cert. denied,* 114 S. Ct. 567 (1993) (another factor to consider when considering leave to file an omitted counterclaim is " 'futility of the proposed amendment' ") (quotation omitted).

a. *Antitrust Claim*

Repeat-O-Type's proposed antitrust claim (Count IV) stems from the allegation that Hewlett-Packard's present

lawsuit against Repeat-O-Type is a "sham" which is part of an overall scheme to establish a monopoly.

Under the *Noerr-Pennington* doctrine, the Supreme Court has held that persons who seek redress through governmental agencies or the courts are immune from antitrust liability for seeking such redress. "Sham" litigation is an exception to this immunity. *Professional Real Estate Investors v. Columbia Pictures Inds.*, 113 S. Ct. 1920 (1993). In order for a lawsuit to constitute "sham" litigation, it "must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Id.* at 1927-28. only then may the court inquire into the party's subjective motivation. *Id.*

It cannot be reasonably contended that this litigation is a "sham." Plaintiff has prevailed on its trademark, unfair competition, and false designation claims. Earlier, Judge Smith granted Hewlett-Packard a TRO on the trademark claims and this Court granted Hewlett-Packard a preliminary injunction. "[A] successful 'effort to influence governmental action . . . certainly cannot be characterized as a sham.") (quotation omitted). *Id.* at 1927; *see also USS-Posco Indus. v. Contra Costa Cty. Bldg. & Const.*, 31 F.3d 800, 811 (9th Cir. 1994) (finding that series of lawsuits could not be considered objectively basis for purposes of antitrust liability when fifteen of the twenty-nine lawsuits proved successful).

Even looking at the patent claims alone, it cannot be said that institution of the proceedings was "objectively baseless" or "lacking in probable cause." *Id.* at 1329-30. Although Hewlett-Packard's theory that Repeat-O-Type's modification of its patent was ultimately unavailing, it was "warranted by existing law" or at least based on an objectively "good faith

argument for the extension, modification, or reversal of existing law." *Id.* at 1930-31 (quoting Rule 11). In fact, the Court implicitly rejected Repeat-O-Type's argument by denying Repeat-O-Type's request for Rule 11 Sanctions.

Moreover, defendant's proposed antitrust counterclaim is merely conclusory and fails to contain the requisite specificity to avoid dismissal under Rule 12(b)(6). In order to state a claim under the sham exception from antitrust immunity, a plaintiff must include allegations of the specific activities, not protected under the *Noerr-Pennington* doctrine, which support its claim. *Franchise Realty v. S.F. Local Joint Exec. Bd.*, 542 F.2d 1076, 1082-83 (9th Cir. 1976), *cert. denied*, 430 U.S. 940 (1977) ("[I]n any case, whether antitrust or something else, where a plaintiff seeks damages or injunctive relief, or both, for conduct which is prima facie protected by the First Amendment, the danger that the mere pendency of the action will chill the exercise of First Amendment rights requires more specific allegations than would otherwise be required.").

b. *Related State Law Claims*

Repeat-O-Type's proposed state law claims are subject to the same analysis as the antitrust claim. In *Pacific Gas & Electric Co. v. Bear Stearns & Co.*, 50 Cal. 3d 1118 (1990), the California Supreme Court applied the *Noerr-Pennington* doctrine to a claim for intentional interference with prospective economic advantage. The Court held that a party must allege that the litigation was brought without probable cause and that the litigation concluded in plaintiff's favor in order to state a valid claim. The Court's reasoning suggests that the *Noerr-Pennington* doctrine applies to all claims that a party's institution and prosecution of a lawsuit constitutes a tort. As

the lawsuit did not conclude in Repeat-O-Type's favor, Hewlett-Packard had "probable cause" to file its lawsuit, and the claims are not alleged with the requisite specificity, plaintiff's first, second, third, fifth, and sixth causes of action for unfair competition, intentional interference with a prospective business advantage, negligent interference with a prospective business advantage, abuse of process, and combination in restraint of trade are also barred.

c. *Wrongful Seizure Counterclaims*

Repeat-O-Type proposes to file two counterclaims for unlawful seizure, one based on the Lanham Act (Count VII) and the other on Cal. Bus. & Prof. Code § 14340(c) (Count VIII). Since Hewlett-Packard sought and was granted a Seizure Order, only under the Lanham Act, federal law governs. Hewlett-Packard was granted a TRO and seizure Order more than two years ago. The Court has ruled that the seizure was proper. Thus, Repeat-O-Type's proposed counterclaim is both untimely and without merit.

d. *Trade Libel*

Repeat-O-Type's proposed trade libel claim is not closely related to the factual allegations in the instant case; the matter currently before the Court relates to Repeat-O-Type's modifications to and packaging of Hewlett-Packard print cartridges. It is within the court's discretion to deny leave to amend where the proposed counterclaim presents a cause of action unrelated to the pending action. *See Insurance Concepts, Inc. v. Western Life Ins. Co.*, 639 F.2d 1108, 1114 (5th Cir. 1981). Moreover, Repeat-O-Type has alleged no statement or writing made by Hewlett-Packard which specifically statement or specifically disparages Repeat-O-Type's goods.

e. *Summary*

Although leave to amend is generally liberally granted, this is a situation where leave to amend should be denied.

Repeat-O-Type's proposed counterclaims are untimely and amendment would insert entirely new issues, delay the proceedings, and prejudice defendants. Furthermore, amendment would be futile. . . .

* * *

CONCLUSION

For the foregoing reasons . . .

* * *

(2) Defendant Repeat-O-Type's motion for leave to file counterclaims is DENIED.

* * *

IT IS SO ORDERED.

Dated: August 30, 1995

s/ D. Lowell Jensen
United States District Judge

APPENDIX B — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED AUGUST 12, 1997

HEWLETT-PACKARD COMPANY,
Plaintiff-Appellant,

v.

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, INC. and FRED KEEN, Defendants-Appellees.

No. 96-1379.

United States Court of Appeals,
Federal Circuit.

Aug. 12, 1997

Before ARCHER, *Chief Judge*, MAYER, and LOURIE, *Circuit Judges*.

LOURIE, *Circuit Judge*.

Hewlett-Packard Company (HP) appeals from the summary judgment of the United States District Court for the Northern District of California, holding that Repeat-O-Type (ROT) does not infringe any of the asserted patents by modifying and reselling HP's ink jet cartridges. *Hewlett-Packard Co. v. Repeat-O-Type, Inc.*, No. 92-CV-3330 (N.D. Cal. Apr. 17, 1996). Because ROT's modification does not constitute impermissible reconstruction and because HP has failed to raise genuine issues of material fact regarding infringement of any of the patents in suit, we affirm.

Appendix B

BACKGROUND

HP manufactures and sells ink jet printers and disposable ink jet cartridges for its printers. Before running out of ink, the cartridges can print approximately 200 to 2000 pages, depending on the cartridge used and the nature of the printing being performed. Once the ink in a cartridge has been depleted, HP expects the cartridge to be discarded and replaced by a new one. Instructions accompanying the cartridges disclaim liability for printer damage caused by refilling and advise the user to "discard old print cartridge immediately."

The HP cartridges use thermal ink jet printing technology in which ink is transferred, drop-by-drop, onto paper, overhead transparencies, or other similar media. Specifically, the cartridges employ a printhead containing thermal resistors that are fabricated within a thin-film-semiconductor substrate and heat and propel ("jet") tiny droplets of liquid ink onto a medium, such as paper. The cartridges also contain an ink reservoir that stores the ink transferred to the printhead during printing. During the ink jet printing process, the printer's electronics provide electrical energy to the cartridge, which conducts the energy through the thermal resistors in the printhead, causing the thermal resistors to heat. As a result, the ink which is delivered to the resistors boils and forms a vapor, which causes nearby ink droplets to be propelled out of the cartridge and onto the paper or other medium. HP warns its customers that refilling the cartridges may reduce print quality due to clogging of the printhead nozzles, corrosion of the cartridge electronics, or incompatibility of non-approved inks with the cartridges.

HP owns numerous patents on various facets of ink jet printing technology, including patents on ink jet printers,

cartridges, and ink formulations. Twelve of these patents are involved in this suit. Of the twelve asserted patents, two of them, U.S. Patents 4,827,294 and 4,931,811, are directed to ink jet cartridges (referred to in the patents as "ink jet pens") and a third, U.S. Patent 5,108,503, is directed to a specific ink formulation. The remaining patents are directed to other aspects of ink jet printing technology and are directed to specific components within ink jet cartridges: U.S. Patents 4,347,524 (shock absorption of an ink supply tube); 4,635,073 (thermal printhead); 4,683,481 (thermal resistors in substrate); 4,771,295 (process for filling an ink jet cartridge with ink); 4,794,410 (thermal resistor structure); 4,794,411 (ink propulsion from printhead); 4,812,859 (multichamber ink jet pen); 4,862,197 (thin-film-resistor printhead); and 4,872,027 (printer and ink jet printhead and their interconnection).

The '294 patent, entitled "Thermal Ink Jet Printhead Assembly Employing Beam Lead Interconnect Circuit," is directed to an "ink jet pen" (*i.e.*, a cartridge), which forms an improved electrical connection between the printhead of the pen and the ink jet printer carriage in which the pen is mounted.

Claim 3 of the '294 patent, which is representative, reads as follows:

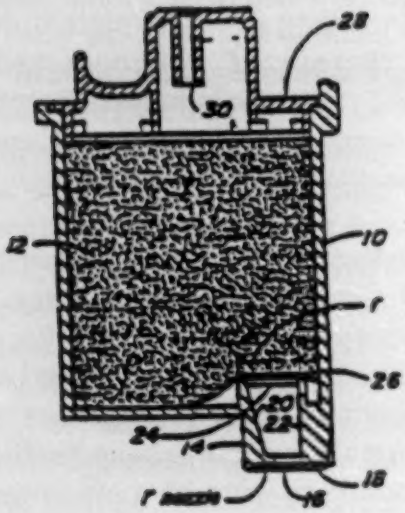
> An ink jet pen including in combination:
>
> (a) a pen body housing having an ink storage compartment therein and an ink flow port adjacent one surface thereof and further having outer surfaces which are contoured to mate with adjacent surfaces of a pen carriage member,

(b) a thin film printhead mounted on said one surface of said pen body housing and adjacent to said ink flow port therein for receiving ink from said ink flow port during an ink jet printing operation, and

(c) a flexible electrical circuit member including a plurality of beam leads bonded at predetermined locations on said thin film printhead for supplying electrical power and signals thereto during an ink jet printing operation, said flexible electrical circuit being extended over one of said contoured outer surfaces of said pen body housing and secured thereto, whereby electrical conductors in a pen carriage are adapted to mate with certain ones of said beam leads of said flexible electrical circuit for supplying power and electrical drive signals to said beam leads when said pen body housing is mounted in said carriage.

The '811 patent, entitled "Thermal Ink Jet Pen Having A Feedtube With Improved Sizing And Operational With A Minimum Of Depriming," is directed to an "ink jet pen" that uses a "standpipe" to improve the connection between the ink reservoir and the printhead.

Appendix B



As illustrated in the accompanying diagram from the '811 patent, the pen body construction includes a pen body housing (10) and a cap (28). The pen body also includes a foam storage material (12) which serves as the ink reservoir, a standpipe formed by walls (20) and (22), and a printhead (18). The cap (28) has an air vent tube (30) for supplying air to the ink reservoir as ink is transferred through the standpipe to the printhead. The patented invention improves on the prior art by providing a standpipe that prevents air bubbles from impeding the flow of ink to the printhead.

Claim 2 of the '811 patent, which is representative, reads as follows:

> 2. A thermal ink jet pen including an ink reservoir therein, and a thin film printhead interconnected to said reservoir by way of a standpipe, with said standpipe having an air accumulating section at the

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ink receiving end thereof and said thin film printhead including an orifice plate with a plurality of orifii therein of a known radius, r_{nozzle} characterized in that the minimum acceptable radius, r, of said air accumulating section of said standpipe satisfies the equation $r/r_{nozzle} > 100$.

The '503 patent, entitled "Smear Resistant Inks For Ink jet Printers," is directed to an ink formulation. Claim 2 depends from claim 1, which has recently been disclaimed, and adds the following limitation: "The ink of claim 1 which is buffered to a pH from about 6 to about 9." Likewise, claims 15 and 19 are limited to formulations containing "sufficient ammonium acetate . . . to provide an ink with a pH from about 7 to about 7.5. . . ." The other asserted claims, 3, 8, 10, 16, and 18, depend from either claims 2 and 15 and thus incorporate the pH limitations.

ROT purchases two types of HP ink jet cartridges, model HP 51625A (known within HP as the "Kukla" cartridge) and model HP 51608A (known within HP as the "Stanley" cartridge). The Kukla cartridge is designed for color printing and contains three reservoirs which hold inks corresponding to the three primary subtractive colors. The Kukla cartridge includes a cap that is ultrasonically welded to the rest of the body of the cartridge, the cap being designed to permit small amounts of air to enter the ink reservoir. The Stanley cartridge, on the other hand, has a single reservoir and is sold by HP with black ink only. It is designed for use with the DeskJet and DeskWriter family of ink jet printers and for the HP FAX-300 ink jet fax machine. The Stanley cartridge includes a hole that is used to fill the ink reservoir at the time of manufacture and also allows air to enter the reservoir during printing.

Appendix B

The Kukla and Stanley cartridges were designed to be non-refillable. As James M. Martin, a product manager for HP, stated, because "refilled cartridges present significant problems of resistor lifetime, nozzle clogging and air bubble formation, the cartridges are not intended to be refilled. Accordingly, the user instructions in the Kukla and Stanley cartridges advise the user to 'Discard old print cartridge immediately.' " ROT has chosen to disregard HP's advice. ROT purchases Kukla and Stanley cartridges, modifies them so that they will be refillable, and then resells them as refillable ink jet cartridges. As HP concedes, ROT starts with brand-new and unused HP cartridges. It does not modify "spent" cartridges. ROT clearly describes the cartridge modification in its own patent, U.S. Patent 5,408,256, entitled "Refillable Color Ink Jet Cartridge And Method For Making Said Cartridge:"

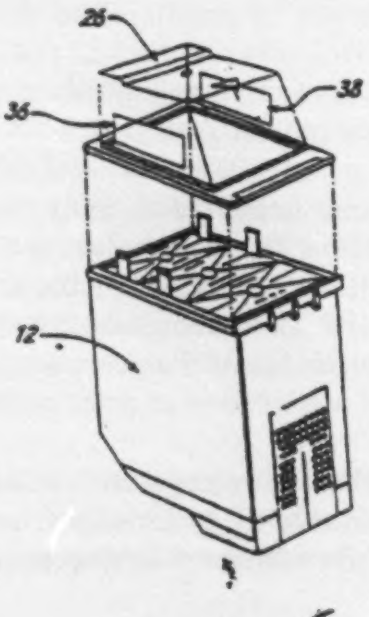

Figure 3 from the '256 Patent

Appendix B

A non-refillable color ink jet cartridge such as the Hewlett-Packard #51625A can be converted into a refillable cartridge. The upper portion of this cartridge contains the three air vent/ink refill holes, and this upper portion has a plastic cap capable of being removed. After placing the body of the plastic cartridge on a suitable support such as, for example, the edge of a table, the protective plastic cap covering the upper portion of the cartridge can be removed by prying it off of a cartridge with a sharp instrument such as a knife.

. . .

The upper protective cap [26] can now be modified so that it can be placed snugly back onto the main cartridge body [12] as often as is necessary to replenish depleted ink supplies. A variety of methods can be employed to do this, including placing two adhesive backed pads [36 and 38] at both sides of the longitudinal length of the upper protective cap.

'256 Patent, col. 1, line 56 to col.2, line 18. ROT sells the modified refillable ink jet cartridges in kits which also contain bottles of refillable ink. The refillable ink is not manufactured or supplied by HP. In addition to modifying the cartridges, ROT replaces the black ink of Stanley cartridges with a variety of color inks and resells them as color cartridges.

In 1992, HP filed suit against ROT after learning that ROT was selling refillable ink jet cartridges. In its original complaint, HP sued ROT for trademark infringement, unfair competition,

and other non-patent causes of action. Shortly thereafter, HP amended its complaint to assert that ROT's modification and resale of the cartridges infringed eleven HP patents pertaining to ink jet cartridges. HP also amended the complaint to assert that the inks sold by ROT infringed one of HP's ink patents and to add Fred Keen, ROT's president and majority stockholder, as a defendant.

ROT moved for summary judgment of non-infringement of all of the asserted patents, and HP moved for summary judgment of infringement on the trademark claims and on two of the patent claims. HP asserted that ROT's resale of the modified Stanley cartridge infringed the '811 patent and that ROT's resale of the modified Kukla cartridge infringed the '294 patent. After hearing arguments on the cross-motions for summary judgment, the district court ruled in favor of HP on the trademark infringement claims and in favor of ROT on the patent infringement claims. The trademark ruling was not appealed.

With regard to patent infringement, the district court first stated that, in light of HP's sale, ROT had the right to use and resell Kukla and Stanley cartridges that were lawfully purchased. The court then considered whether ROT's modification created an infringing product. The court noted that ink was not an element of the claimed invention of the '811 patent. Thus, the court held that ROT's replacement of the ink, a non-patented component, in the Stanley cartridge was not patent infringement.

As for the '294 patent, the court noted that the cap is not an element of the claims and held that "breaking the seal of the cap and replacing the cap with shims so that the cap could be

removed and the cartridge refilled by the consumer, does not constitute impermissible 'reconstruction.' " Finally, holding that HP failed to present sufficient evidence of infringement to create any genuine issues of material fact, the court ruled that ROT was entitled to judgment of non-infringement on all the patent claims as a matter of law. Finding no just reason for delay, the district court entered final judgment on the patent claims pursuant to Fed. R. Civ. P. 54(b). HP now appeals to this court. We have jurisdiction to hear this appeal under 28 U.S.C. § 1295(a)(1) (1994).

DISCUSSION

We review a district court's grant of summary judgment *de novo*. *Conroy v. Reebok Intl, Ltd.*, 14 F.3d 1570, 1575, 29 USPQ2d 1373, 1377 (Fed. Cir. 1994). Summary judgment is appropriate when no genuine issue exists as to any material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). Thus, summary judgment may be granted when no "reasonable jury could return a verdict for the nonmoving party." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). In determining whether there is a genuine issue of material fact, the evidence must be viewed in the light most favorable to the party opposing the motion, with doubts resolved in favor of the opponent. *Transmatic, Inc. v. Gulton Indus., Inc.*, 53 F.3d 1270, 1274, 35 USPQ2d 1035, 1038 (Fed. Cir. 1995).

A. *The '294 and '811 Patents*

The patent statute provides that "whoever without authority makes, uses, . . . or sells any patented invention, in the United States . . . during the term of the patent therefor, infringes the

patent." 35 U.S.C.§ 271(a) (1994). Infringement thus not only requires that claims read on accused devices, but also requires that the accused devices be made, used, or sold without authority. Thus, even if the patents in suit read on the accused cartridges, there is no infringement if ROT acted "with authority" granted by HP's unconditional sale of the cartridges in question.

HP argues that ROT's modification and resale of the Stanley and Kukla cartridges infringes the '294 and '811 patents. HP first asserts that the district court erred in its interpretation of the claims of the '294 and '811 patents and that this error infected the district court's infringement analysis. Specifically, HP argues that the district court erred by holding that the "patents are not for the [ink jet] cartridges themselves; they are for certain elements which are *in* the cartridges" (emphasis in original).

HP also argues that ROT's modification creates new cartridges because the modified cartridges have different properties, different features, and different performance characteristics compared with the cartridges sold by HP. HP contends that because ROT sells cartridges that differ from the cartridges purchased from HP, the cartridges are "new," not "authorized," and therefore infringe. HP emphasizes that, although the cap is not explicitly recited in the claims, the cap on the Kukla cartridge is part of the "pen body housing" recited in claim 3 of the '294 patent. Thus, HP argues, modification of the cap necessarily involves modification of the claimed "pen body housing" and thus the use and sale after such modification is an infringement. Similarly, HP argues that the cap of the Stanley cartridge is part of the claimed "ink reservoir" of claim 2 of the '811 patent.

ROT responds that refilling the ink in the cartridges cannot constitute infringement, because, while HP may have a patent on the cartridge, *i.e.*, the container, HP does not have a patent on the contents of the container, specifically, the ink. ROT further argues that the replacement of components of the cartridges that are not specifically recited elements of the asserted claims cannot be considered a "manufacture" of the claimed inventions. ROT argues that because neither the cap nor the ink are recited elements of the claims, their modification or replacement cannot constitute infringement.

We agree with HP that the court misconstrued the claims. They relate to ink jet cartridges, not to specific components within the cartridges. The preamble of each claim clearly states that it relates to an "ink jet pen including" the recited limitations. The claim term "including" is synonymous with "comprising," thereby permitting the inclusion of unnamed components. Thus, claim 3 of the '294 patent, for example, reads on ink jet pens that contain the recited pen body housing, thin film printhead, and the flexible electrical circuit member. If these three elements can be identified in ROT's cartridges, then such cartridges are within the scope of that claim and the unauthorized manufacture or sale of such a cartridge infringes the claim.

Although the district court did not construe the claim terms "pen body housing" or "ink reservoir," and hence did not consider whether modification of the cap results in a modification of specific elements of the claims, for purposes of our inquiry into ROT's "authority," we will assume that HP's patents read on ROT's modified cartridges. We will also assume that modification of the cap involves "making" the "ink jet pens" claimed in the '294 and '811 patents. The question before

us is whether this modification is authorized, or whether it exceeds the scope of the implied license granted to ROT and subsequent purchasers by the sale of the ink jet cartridges.

Generally, when a seller sells a product without restriction, it in effect promises the purchaser that in exchange for the price paid, it will not interfere with the purchaser's full enjoyment of the product purchased. The buyer has an implied license under any patents of the seller that dominate the product or any uses of the product to which the parties might reasonably contemplate the product will be put. *See Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 548, L.Ed. 322 (1872) ("Complete title to the implement or machine purchased becomes vested in the vendee by the sale and purchase. . . . Patented implements or machines sold to be used in the ordinary pursuits of life become the private individual property of the purchasers, and are no longer specifically protected by the patent laws. . . .").

The authority to use and sell a purchased device, however, does not include the right to make a new device or to reconstruct one which has been spent. Reconstruction, *i.e.*, the re-creation of a patented combination, is an infringement because such activity is beyond the implied authorization to use and sell a patented device. As the Supreme Court has stated:

> The decisions of this Court require the conclusion that reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to 'in fact make a new article,' after the entity, viewed as a whole, has become spent. In order to call the monopoly, conferred by the patent grant, into play for a second time, it must, indeed, be a second creation of the

> patented entity. . . . Mere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property.

Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 346, 81 S.Ct. 599, 604, 5 L.Ed.2d 592, 128 USPQ 354, 359 (1961) ("*Aro I*") (citations omitted). On the other hand, one does have authority to repair a patented device that he has purchased. This case raises the question whether the modification of the HP cartridges by ROT is repair, as the district court implicitly held, or is tantamount to reconstruction, as HP urges.

It is undisputed that HP sold and ROT purchased the Kukla and Stanley cartridges without restriction; HP has not alleged that ROT breached any contract affecting the transaction. When HP (or an agent with authority to sell) sold the cartridges, HP parted with the right to enforce any of its patents relating to the cartridges thus sold to exclude the purchaser from using or selling them. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484, 84 S.Ct. 1526, 1531, 12 L.Ed.2d 457, 141 USPQ 681, 685 (1964) ("*Aro II*") ("[I]t is fundamental that sale of a patented article by the patentee or under his authority carries with it 'an implied license to use.' ") (quoting *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456, 21 L.Ed. 700 (1873)); *United States v. Univis Lens Co.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 1093, 86 L.Ed. 1408 (1942) ("An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it . . ."); *Mitchell*, 83 U.S. (16 Wall.) at 547 (stating that where the sale is without restriction, "the rule is well established that the patentee must be understood to have

parted to that extent with all his exclusive rights, and that he ceases to have any interest whatever in the patented machine so sold and delivered").

HP correctly states that ROT's modification is not conventional repair. The caps on the purchased cartridges are not broken or defective. On the other hand, neither is ROT's modification a "reconstruction" of the patented combination. A reconstruction occurs after the patented combination, as a whole, has been spent, when "the material of the combination ceases to exist." *Wilson v. Simpson*, 50 U.S. (9 How.) 109, 123, 13 L.Ed 66 (1850). While there is no bright-line test for determining whether a modification is a "reconstruction" sufficient to infringe a patent owned by the seller of the product, on the undisputed facts in this case, we agree with the district court that ROT has not reconstructed the cartridges. ROT's modification of the caps of HP's cartridges is more akin to permissible "repair" than to impermissible "reconstruction." *See Kendall Co. v. Progressive Med. Tech. Inc.*, 85 F.3d 1570, 1575, 38 USPQ2d 1917, 1921 (Fed. Cir. 1996) (stating that "as long as reconstruction does not occur or a contract is not violated, nothing in the law prevents a purchaser of a device from prematurely repairing it"). While HP had the right to be free from competition from those who would reconstruct spent products, ROT did not do that. Even accepting that ROT's actions constitute a "making" of the accused cartridges, they were made from new and unused HP cartridges purchased from a legitimate source, and the property of ROT; the HP cartridges were certainly not spent. Furthermore, ROT does not *replace* any of the elements recited in the claims; the housing, printhead, standpipe, ink reservoir, and flexible strip are all original components of the purchased cartridges. Using the original housing, ROT only changes the way in which the cap of an

unused, new cartridge is connected to the remainder of the cartridge. This modification allows ROT's customers to use the cartridges for the duration of the life of the patented combination, rather than be limited by the duration of the ink supply in the cartridge.

The Supreme Court decision in the case of *Wilber-Ellis Co. v. Kuther*, 377 U.S. 422, 84 S.Ct. 1561, 12 L.Ed.2d 419, 141 USPQ 703 (1964), decided on the same day as *Aro II*, is instructive on this point. In that case, the patentee sued the purchaser of patented fish-canning machines after the purchaser modified the machines. As originally constructed, the machines packed fish into one-pound cans. The purchaser had six of thirty-five elements of the machines resized so that the machines would pack fish into smaller five-ounce cans. Declining to treat the unrestricted sale of the machines as a license for use on one-pound cans only, the Supreme Court held:

> When six of the 35 elements of the combination patent were resized or relocated, no invasion of the patent resulted, for as we have said the size of cans serviced by the machine was no part of the invention; nor were characteristics of size, location, shape and construction of the six elements in question patented. Petitioners in adapting the old machines to a related use were doing more than repair in the customary sense; but what they did was kin to repair for it bore on the useful capacity of the old combination, on which the royalty had been paid.

Wilbur-Ellis, 377 U.S. at 424-25, 84 S.Ct. 1561, 1563, 141 USPQ at 704-05. Likewise, ROT's modification of the original HP cartridges improved their usefulness by allowing ROT and

its customers to use them for their own purposes. It was "kin to repair." We find HP's arguments attempting to distinguish *Wilbur-Ellis* unconvincing.

HP argues that the machines in *Wilbur-Ellis* had not reached the end of their intended life, whereas the intended and useful life of its cartridges ends as soon as a single reservoir of ink is depleted because at that point, print quality cannot be assured. It asserts that "Hewlett-Packard engineered the Kukla and Stanley cartridges so that no component would fail prior to delivery of all of the ink contained therein." While such engineering may be testimony to the quality of HP's product, and ROTs actions may affect HPs warranties, this argument does not support HPs legal position. HPs unilateral intentions cannot change the fact that ROT has only modified an unused cartridge that HP sold without restriction. HP fails to recognize the distinction between what it intended to be the life of the cartridge, as determined by the ink supply, and its actual useful life. As HP's assertion makes clear, the cartridges are specifically designed so that the ink is depleted not only *before* the patented combination as a whole is spent, but *before* any single component of it is spent (such as the printhead). Thus, the useful life of the patented combination is substantially longer than the life of a single reservoir of ink.

HP also argues that the boundary between "permissible repair" and "impermissible reconstruction" turns on the intention of the patentee. HP contends that it has clearly manifested its intent that the ink jet cartridges be non-refillable. The package insert accompanying the cartridges suggests that the cartridges be discarded once they are empty; HP does not sell refillable cartridges, and HP does not sell ink refills. Because it has always manifested an intent that its cartridges

be discarded, it argues, the creation of refillable or refilled cartridges are unauthorized acts which constitute an infringement of its patents. HP in effect argues that any change to a patented product that is not intended by the patentee constitutes reconstruction. In support of its theory, HP cites *Wilson*, 50 U.S. (9 How.) at 125-126, as establishing an "intent-of-the-patentee analysis" for determining whether conduct is to be considered a "repair" or a "reconstruction." We do not agree; HP has misread *Wilson*. Although at times speaking in terms of the intention of the inventor, the Court focused on the nature of the device sold, and specifically on the fact that the machine was designed such that one group of components, the knives, would wear out long before the remaining components:

> The proof in the case is, that one of [the inventor's] machines, properly made, will last in use for several years, but that its cutting-knives will wear out and must be replaced at least every sixty or ninety days.
>
> . . .
>
> [If such a] part of the combination is meant to be . . . frequently replaced, because it will not last as long as the other parts of the combination, its inventor cannot complain.

Wilson, 50 U.S. (9 How.) at 125-26. Although HP cites *American Cotton-Tie Co. v. Simmons*, 106 U.S. (6 Otto.) 89, 94, 1 S.Ct. 5, 56-57, 27 L.Ed. 79 (1882), as additional support for its "intent-of-the-patentee" theory, the Supreme Court, in *Aro I*, referred to *American Cotton-Tie* by noting that "the fact that the [devices] were marked 'licensed to use once only' was deemed of importance by the Court." *Aro I*, 365 U.S. at 343

n. 9, 81 S.Ct. at 603 n. 9 , 128 USPQ at 358 n. 9. Thus, absent a restriction having contractual significance, a purchase carries with it the right to modify as long as reconstruction of a spent product does not occur. *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 24 USPQ2d 1173 (Fed. Cir. 1992) (stating that should "single use only" restriction be enforceable on remand, reuse of device would be a breach of contract and therefore unauthorized). The question is not whether the patentee at the time of sale intended to limit a purchaser's right to modify the product. Rather the purchaser's freedom to repair or modify its own property is overridden under the patent laws only by the patentee's right to exclude the purchaser from making a new patented entity. Each case turns on its own particular facts, but a seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product as long as a reconstruction of the patented combination is avoided. A noncontractual intention is simply the seller's hope or wish, rather than an enforceable restriction.

HP's arguments based on decisions of this court are similarly unavailing. In *Sage Products, Inc. v. Devon Industries, Inc.*, 45 F.3d 1575, 33 USPQ2d 1765 (Fed. Cir. 1995), we held that an inner container of a patented medical waste disposal system was effectively spent when filled and thus could be replaced or repaired without infringing the patent. In response to the patentee's argument that the inner containers were not spent, the court noted, *inter alia*, that the patentee admitted that it intended that customers replace the inner containers. 45 F.3d at 1578, 33 USPQ2d at 1767. The patentee's intent was relevant, not to limit use by the purchasers, but to show that the patentee expected the product to be repaired. Neither that decision nor other decisions of this court cited by HP suggest

that a patentee's intent alone limits the scope of the implied license that accompanies the sale of goods.

Accordingly, even though HP clearly intends the filled cartridges which it sells to be discarded after a single use, HP cannot use the patent laws to impose restrictions on the cartridges' use after selling them unconditionally. The modification made by ROT, essentially replacing the type of seal holding the cap onto an unused cartridge, is not a "second creation of the patented entity" so as to constitute an infringement of HP's ink jet pen patents. See *Aro I*, 365 U.S. at 346, 81 S.Ct. at 604-06, 128 USPQ at 359. Were we to rule in HP's favor in this case, we would be depriving ROT of the right to use and resell its own property, an unused product it purchased free of restriction, and enable HP to limit the use of a product it freely sold without restriction.

B. *The '503 Ink Patent*

HP argues that summary judgment of non-infringement of the '503 patent was improperly granted because the court ignored evidence of infringement proffered by HP, including "admissions of infringement by two of ROT's ink chemists. We find no error in the district court's conclusion that, viewing the evidence in a light most favorable to HP, it has failed to meet its burden to show the existence of genuine issues of fact for trial. Regarding the "admissions," HP cites deposition testimony by a former ROT chemist in which the chemist stated that he believed that ROT's black ink refill "fell within the claims" of the '503 patent. However, during the same deposition and when questioned claim by claim, he could not identify a single claim that read on ROT's inks. He further explained in detail why the chemical compositions of ROT's inks did not

meet each element of the asserted claims as he understood them. Upon questioning regarding the discrepancy in his testimony, the chemist explained that he did not understand the examining attorney's use of the phrase "fall within the claims" to mean that every limitation of each claim was met by the accused product. Thus, the chemist offered unrebutted testimony that the accused ink was not within the scope of the asserted claims. His earlier conclusory response, based on a misunderstanding of the question asked and immediately shown to be an inaccurate summary of his views, does not raise a genuine issue of material fact.

The other evidence cited by HP is the statement by an ROT chemist that ROT's president had told her on her first day of work that "there was a problem, there was patent infringement" regarding an ink jet ink formula developed by another chemist. This statement is hardly an admission that the accused products infringe the asserted claims of the patent at issue. HP has failed to provide any evidence that creates a genuine issue of fact concerning whether the accused products contain inks that are covered by the asserted claims of the '503 patent.

C. *The Remaining Patents In Suit*

The remaining nine patents allegedly cover various components of ink jet cartridges. ROT does not appear to dispute this. In its Statement of Undisputed Material Facts submitted to the district court, ROT admitted that "[t]he claims of [the patents in suit] claim either structure of the elements of the cartridges or methods of making same." However, ROT contends that its modification does not affect these elements, and HP does not allege otherwise. Rather HP argues that the modified cartridges are "new" devices that infringe these patents

as well. As previously discussed, this argument misses the mark. HP has not introduced any evidence to show that ROT's limited modification constitutes reconstruction of the patented cartridges.

With regard to the '295 patent, HP argues that ROT's activities infringe process claims directed to "providing" ink reservoirs with ink and "filling" ink reservoirs with ink. This argument is also unpersuasive. Unauthorized use of the cartridges covered by the apparatus claims would necessarily infringe the asserted process claims. As previously articulated, however, when a patentee sells a device without condition, it parts with the right to enforce any patent that the parties might reasonably have contemplated would interfere with the use of the purchased device. While HP may assert that it didn't intend that the cartridges be refilled, there was no agreement on that point. Moreover, a license was impliedly granted under the patent for the additional reason that it contained apparatus claims as well as process claims covering use of the cartridges. Accordingly, HP "authorized" the practice of any method claims in the '295 patent when it sold the cartridges unconditionally. *Univis Lens Co.*, 316 U.S. at 249, 62 S.Ct. at 1093 (stating that "upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold"). Finally, HP has not met its burden of showing the existence of an issue of material fact with regard to the asserted method claims of the '295 patent.

CONCLUSION

The district court did not err in granting ROT's motion for summary judgment of non-infringement of all twelve asserted

patents and in denying HP's contrary motion regarding two of the patents. HP sold ink jet cartridges without condition or restriction. ROT lawfully purchased the cartridges and modified them in a manner that was more akin to permissible repair than to impermissible reconstruction. Therefore, ROT's modification and sale of the cartridges did not infringe the asserted claims of the two "ink jet pen" patents or the asserted process claims allegedly covering the use of the cartridges. Because it is undisputed that the modification did not effect a reconstruction of any claimed subject matter in the nine patents allegedly covering components of the cartridges, these claims were not infringed as well. In addition, the district court did not err in holding that HP failed to raise a genuine issue of fact regarding infringement of the asserted ink patent. Accordingly, the decision of the district court is affirmed.

AFFIRMED.

APPENDIX C — TABLE OF CONTENTS OF PETITIONER'S NINTH CIRCUIT BRIEF

Appeal # 98-15956

In The

UNITED STATES COURT OF APPEALS
For The Ninth Circuit

HEWLETT-PACKARD COMPANY

Plaintiff-counter-defendant-Appellee

v.

FRED KEEN;

Defendant-Appellant

and

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, INC.

Defendant-counter-claimant-Appellant

Appeal From United States District Court for the
Northern District of California
Honorable Vaughn R. Walker

BRIEF FOR APPELLANT
REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION

Appendix C

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Appendix C

TABLE OF CONTENTS

CERTIFICATE OF INTEREST v

CERTIFICATE OF COMPLIANCE vi

STATEMENT OF JURISDICTION 1

STATEMENT OF THE ISSUES PRESENTED FOR REVIEW 1

STATEMENT OF THE CASE 4

SUMMARY OF ARGUMENT 8

ARGUMENTS 9

I. THE COURT ERRED IN ALLOWING DAMAGES TO BE AWARDED IN THE ABSENCE OF ANY EVIDENCE OF ACTUAL CONFUSION OR DAMAGE TO HEWLETT-PACKARD 9

II. THE COURT COMMITTED A GROSS ABUSE OF DISCRETION IN AWARDING $1,309,995.50 IN ATTORNEY FEES 20

A. The Court Erred In Not Apportioning Attorney's Fees Between The Patent Case, The Trademark Case And The State Causes of Action 20

B. The Court Erred In Not Considering The Evidence Of Non-Willfulness 22

Appendix C

C. The Court Erred In Failing To Take Into Consideration The Lack Of Damages Suffered By Hewlett-Packard In Determining Whether This Was An Exceptional Case Justifying The Award of Attorney's Fees 24

D. The Court Erred In Failing To Take Into Consideration The Financial Circumstances Of The Defendants In This Case And The Conduct of Hewlett-Packard In Awarding Attorney's Fees 24

E. The Court Erred In Not Reviewing Hewlett-Packard's Attorney's Fees Affidavits To Determine The Reasonableness Or Necessity Of The Fees Allegedly Incurred 26

III. THE COURT ERRED IN ENTERING JUDGMENT OF COUNTERFEITING AND AWARDING ATTORNEY'S FEES AND TREBLE DAMAGES IN ACCORDANCE WITH THE FINDING OF COUNTERFEITING 27

IV. THE COURT ERRED IN ALLOWING EVIDENCE OF MRS. KEEN'S FINANCES AND NET WORTH 31

V. THE COURT BELOW ERRED IN TREBLING THE DAMAGES IN LIGHT OF THE NET WORTH OF THE DEFENDANTS 31

VI. THE COURT ERRED IN AWARDING PUNITIVE DAMAGES AGAINST FRED KEEN IN THE ABSENCE OF ANY EVIDENCE OF HIS NET WORTH 32

VII. THE COURT ERRED IN REFUSING TO ALLOW INTO EVIDENCE TESTIMONY CONCERNING STATEMENTS MADE BY HEWLETT-PACKARD REPRESENTATIVES TO REPEAT-O-TYPE REPRESENTATIVES WHICH STATEMENTS RELATED TO THE ISSUE OF ESTOPPEL AND MITIGATION; IN REFUSING TO ALLOW THE ISSUE OF MITIGATION OF DAMAGES TO GO TO THE JURY AND IN REFUSING TO CONSIDER EVIDENCE OF ESTOPPEL IN ENTERING JUDGMENT AGAINST REPEAT-O-TYPE, INCLUDING TREBLING OF DAMAGES AND AWARDING ATTORNEY'S FEES 32, 33

VIII. THE COURT ERRED IN SUSTAINING THE JURY'S VERDICT OF PUNITIVE DAMAGES AND IN ENTERINC PUNITIVE DAMAGES AGAINST DEFENDANTS 35

IX. THE COURT ERRED IN AWARDING DAMAGES FOR FALSE ADVERTISING 35

X. THE COURT ERRED IN GRANTING SUMMARY JUDGMENT OF TRADEMARK INFRINGEMENT IN FAVOR OF HEWLETT-PACKARD 36

Appendix C

XI. THE COURT ERRED IN ALLOWING ANY DAMAGE ISSUES TO GO TO THE JURY AND IN NOT SETTING ASIDE ANY DAMAGE AWARDS 37

XII. THE COURT ERRED IN ALLOWING THIS CASE TO GO TO A JURY AND IN ENTERING JUDGMENT AGAINST FRED KEEN INDIVIDUALLY 38

XIII. THE COURT ERRED IN REFUSING TO ALLOW INTRODUCTION INTO EVIDENCE OF A HEWLETT-PACKARD BOX WITH A HANG TAB CONTAINING THE HEWLETT-PACKARD LOGO 39

XIV. THE COURT ERRED IN AWARDING PUNITIVE DAMAGES UNDER CALIFORNIA BUSINESS AND PROFESSIONS CODE §§ 17200 AND 17500 39

CONCLUSION 40

Supreme Court, U.S.
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(3)

No. 98-244

In The

Supreme Court of the United States

October Term, 1997

REPEAT-O-TYPE STENCIL,
MANUFACTURING CORPORATION,

Petitioner,

vs.

HEWLETT-PACKARD COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

REPLY BRIEF FOR PETITIONER

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RES JUDICATA

In its brief in opposition, Hewlett-Packard raises an interesting procedural issue. Hewlett-Packard's position is that because the original trial judge, in denying the request for leave to add counterclaims, stated that the counterclaims did not appear to have any merit, this was res judicata. In fact, that court exercised its discretion in refusing to accept the counterclaims because they were filed too late in the day. The court then stated that, in addition, it believed that the counterclaim did not have merit. It is ROT's position that the court never accepted jurisdiction of the counterclaims and did not therefore base its decision on the counterclaims not having merit. An appeal based upon that portion of the court's decision would have been meaningless because it would not have overcome the court's exercise of its discretion in refusing to accept jurisdiction of the counterclaims.

This is a matter which the court may wish to address.

HEWLETT-PACKARD'S SLEIGHT OF HAND:

The fundamental problem with Hewlett-Packard's analysis and its arguments with which it has so far been inappropriately successful in this case is shown on page 3 of Hewlett-Packard's responding brief. On page 3 Hewlett-Packard states:

> Because the product that ROT was selling in its misleading packaging was nothing more than a modified version of HP's own cartridges, the product unsurprisingly fell under the terms of numerous HP patents.

This is precisely the issue which Repeat-O-Type attempted to present in the court below. In fact, Hewlett-Packard's own

cartridges did not fall under the terms of any of the patents which it asserted in the underlying litigation. Hewlett-Packard never prepared or presented a claims chart and never showed any infringement analysis. This is the infringement analysis which the CAFC has required as a prerequisite to avoiding sanctions. *Herbert Judin v. The United States and Hewlett-Packard Company*, 110 F.3d 780 (Fed. Cir. 1997). *Refac International Ltd. v. Hitachi, Ltd.*, 19 U.S.P.Q. 2d 1855.

The Ninth Circuit decision in the case at bar, essentially saying that no such prefiling or even post filing claims analysis is required, sets this case directly at odds with the law of the CAFC.

Hewlett-Packard successfully finessed this issue by focusing entirely upon its affirmative defense of repair-reconstruction to Repeat-O-Type's affirmative defense of first sale extinguishment of patent rights. Repair-reconstruction was not the issue presented in the antitrust case. The issue presented in the antitrust case was the fact that Hewlett-Packard's own cartridges did not fall under the terms of the Hewlett-Packard patents.

CONCLUSION

The threat of sham litigation actions by a defendant in a patent infringement action is a very powerful and important deterrent to the abuse of patents. The CAFC has set down very stringent standards which must be met before the filing of a patent infringement lawsuit in order to avoid Rule 11 sanctions. That same criteria was set forth by this Court in *Professional Real Estate Investors, Inc. v. Columbia Pictures, Inc.*, 113 S. Ct. 1920, 123 L. Ed. 2d 611 for sham litigation. In order to provide stability and predictability in this area of the law, the Supreme Court can, and hopefully will, set forth clear standards as to what criteria must be met before filing a patent infringement lawsuit in order to avoid the risk of being sued for sham litigation and malicious prosecution.

Respectfully submitted,

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